

Ref No: IBEDC/MD/ /2023

The Chairman
Nigerian Electricity Regulatory Commission.
Plot No. 1387, Cadastral Zone,
A00, Central Business District,
Abuja.

Dear Sir,

RE – FILING OF APPLICATION FOR RATE CASE BY IBADAN ELECTRICITY DISTRIBUTION PLC

We acknowledge receipt of the Commission’s proposed July 2023 Minor Review Models for Ibadan Electricity Distribution Company Plc (IBEDC) sent on the 16th of June 2023, with particular reference to the Commission’s directive dated 21st June 2023, with above-captioned subject bothering on the need for market reset for improved performance bearing in mind the urgency for the re-alignment of our tariffs in line with the actual operational parameters thereby proposing a rate case design application void of multiple assumptions for the determination of our applicable tariff to the Commission.

The Management of Ibadan Electricity Distribution Company Plc immensely lauds the Commission’s continuous improvement efforts towards actualization of a sustainable electricity market and the opportunity for an independent review to file in our rate accordingly.

We are hopeful that its’ impending implementation enabled by realistic market parameters will support the efficient business operation of IBEDC. By this letter, we wish to communicate the assessment of our proposed model and our proposals on the realistic outcomes that should be implemented.

Proposed Rate Design

We have assessed our proposed tentative model, the rate design and align with the Commission’s submission, although, some of the indices have been adjusted accordingly to our peculiar circumstances. The underlying principle of our adjustments is to remain customer centric across the spectrum of our customer base but most especially to the high paying customers. The tables below show IBEDC’s proposed rate design for the period July - December 2023.

All the underlying assumptions made by us in the MYTO model sent to the Commission have been adopted wholistically as we considered these assumptions fair, reasonable and speak to some aspect of the present economic situations in the country. We have also weighting on each tariff classification to arrive at our desired tariff regime and use the exact energy sales percentage across tariff classes.

Table 1: IBEDC’s Proposed Rate Design for Year 2023

Attached Financial Model (FM) highlights our Micro and Macro economic indices considered in the setting of these tariffs accordingly, and also predicated on the following operational parameters:

ChangingLives

www.ibedc.com

Ibadan Electricity Distribution Company Plc

Capital Building, 115 MKO Abiola Way, Ibadan, Oyo State | Reg No. 638633

Applicable Exchange Rate (FOREX): It was observed that the adopted FOREX for the tariff computation is at ~~₦639.1/\$1~~, which is far lower than the current rate of ~~₦820/\$1~~ as at date. We would also want the Commission to consider adjustment of the FOREX to reflect the actual and most importantly advance mechanism for immediate monthly pass through cost, in order to be able to meet up with our MRO.

Inflation Rate: We quite understand the dynamics around application of exchange rate however we would implore the Commission to deploy efficient tools towards monitoring of the inflation rate as Nigeria rate is at **22.41%** as against the **22.0%** and United States have average **5.5%** for the past three months 2023.

Energy Allocation and Customer Population per Band: below is the representation of our proposed load allocation as against that of the Commission, our proposal is highly influence by the generation availability and transmission load constraint on feeder basis:

	MYTO Load Allocation	Customer Population per Band (MYTO)	IBEDC's proposed Load Allocation	Customer Population per Band
Life-line	0.4%	25,014	0.4%	6,918
A – Non MD	15.7%	177,967	8.3%	331,543
A – MD1	13.5%	1,043	5.7%	4,387
A – MD2	23.8%	159	17.0%	457
B – Non MD	6.9%	384,480	12.9%	438,977
B – MD1	2.3%	1,899	2.6%	5,469
B – MD2	6.2%	140	1.8%	131
C – Non MD	10.3%	289,193	13.3%	396,245
C – MD1	1.0%	1,216	0.9%	2,085
C – MD2	0.4%	55	0.4%	94
D – Non MD	11.0%	475,711	24.2%	589,998
D – MD1	0.7%	1,400	0.7%	2,291
D – MD2	0.2%	92	0.2%	107
E – Non MD	7.3%	761,577	11.6%	529,858
E – MD1	0.3%	1,716	0.2%	977
E – MD2	0.1%	60	0.0%	48

Below is the business overview in relations to IBEDC's market realities we pray the Commission to consider while computing our tariff accordingly:

Customer Population

The table below shows the information on our customer population. As at 2015, we had a total of 1,603,443 customers in our network, of which 537,955 (34%) were metered and 1,065,488 (66%) unmetered. At the end of 2022, we had 2,207,487 customers in our network representing a growth of 73% from 2015, with estimated average growth of 9% annually.

The number of metered and unmetered customers has changed. Customer meters have been deployed under various initiatives including CAPMI, MAP, and the ongoing MAP and NMMP framework, to close the metering gap. As of 2022, we had 38% (782,105) metered customers with 35,470 metered under the MAP Scheme, and 62% (1,425,382) unmetered customers in our franchise area.

Table 1: Customer Population (2015-2022)

	2022
Customer numbers	2,207,487
Metered Customers	782,105
Unmetered Customers	1,425,382
Customers metered before MAP	537,051
Customers metered Under MAP + NMMP	245,051

Operational Expenditure (OPEX)

The table below shows the breakdown of our yearly actual OPEX and our MYTO OPEX allocation for the corresponding period. The liquidity challenges we have witnessed over the period have resulted in a lower utilization than expected. Over the period, our OPEX utilization was an average of 66%.

Table 2: OPEX Performance (2015-2022)

	2015	2016	2017	2018	2019	2020	2021	2022
MYTO OPEX (N Million)	19,079	20,691	23,711	26,319	29,060	32,548	33,186	13,432
Actual OPEX (N Million)	9,449	9,670	11,261	13,451	13,602	12,764	23,449	23,628
Utilisation (%)	50%	47%	47%	51%	47%	39%	71%	176%

Below is average breakdown for year 2020, 2021 and 2022:

Analysis of historical OPEX for the last three years broken down into	2020 (₹)	2021 (₹)	2022 (₹)
Staff Cost (Staff, Management and Board Expenses)	7,012,337,108	7,643,682,920	7,889,421,162
Repairs & Maintenance Expenses (technical operations)	655,005,553	993,241,655	437,250,111
Billing and Collection Expenses	5,262,634,281	6,375,867,268	5,774,015,559
Office and Admin Expenses	5,502,804,991	5,522,231,209	6,764,289,082
Loan & Depreciation	2,363,637,000	2,913,954,961	3,190,588,487
TOTAL	20,796,418,934	23,448,978,013	23,628,398,734

Capital Expenditure (CAPEX)

The table below shows the breakdown of our yearly actual CAPEX and our MYTO CAPEX allocation for the corresponding period. There is inadequate CAPEX provision in the MYTO model for the ambitious performance improvement required in the increase of reliable energy to customers, reduction of technical losses, and expansion of our network. Despite the limited allowance, our liquidity challenges have also restricted our ability to finance the CAPEX. Over the operational period for FY 2022, our CAPEX utilization was 53.5%.

The table above shows the Mokwa/New Bussa feeders' performance for the period May 2020 to June 2021, these feeders contributed an average of 1.5% monthly to our ATCC. To address and permanently solve the issue of Mokwa/New Bussa we hereby recommend two options to the commission. These are as follows-

- Working progressively with the locals on engagement on importance for revenue improvement
- Actively engaging vendors with prerequisite experience on energy accounting, collection and revenue assurance for franchising options, also considering community franchising.
- In order to mitigate our loss level IBEDC is considering deployment of auto-recloser in the area to control their energy consumption level.

We hope the commission consider our proposal in this respect in good faith. However, we have put in abeyance the recognition of the effect these communities in projecting ATCC losses for the 2023 financial year pending when the Commission implement our proposal.

Minimum Remittance Obligation Commitment

Critical analysis of IBEDC's MRO performance for the Q1 and Q2 for FY 2023 have influenced IBEDC's to reposition her commitment in line with our actuals for the months under review. It is trite that Regulatory Net-off input assisted towards actualization of the MRO target for the reviewed period.

The Table below provide insight into how the market fared during the review period:

Ibadan Electricity Distribution Company Plc's Market Settlement Analysis for January 2023 to June 2023						
Market Operator's Bill Analysis						
	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Total
Market Operator's Monthly Invoice Figures (=N=)	1,730,361,368.41	1,619,597,866.36	1,865,120,417.05	1,580,018,888.28	1,520,850,247.02	8,315,948,787.12
Remittance (=N=) - Payment with Regulatory Net-off (=N=133,250,000)	1,730,361,368.41	1,619,597,866.36	1,865,123,334.93	1,580,018,888.28	1,520,850,247.02	8,315,951,705.00
Total Remittance Percentage (%)	100%	100%	100%	100%	100%	100%
Remittance without Regulatory Net-off input	1,597,111,368.41	1,486,347,866.36	1,731,873,334.93	1,446,768,888.28	1,387,600,247.02	7,649,701,705.00
Nigerian Bulk Electricity Trader Bill Analysis						
	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Total
Monthly bill from Jan 2023 - May 2023 (=N=)	8,767,861,362.33	8,767,645,113.73	9,856,669,372.65	8,786,429,494.06	11,801,477,549.19	47,980,082,891.96
Minimum Remittance MYTO Assumption (89.65%)	7,860,387,711.33	7,860,193,844.46	8,836,504,092.58	7,877,034,041.42	10,580,024,622.85	43,014,144,312.64
Actual Minimum Remittance (75.14%)	6,588,171,027.65	6,588,008,538.46	7,406,301,366.61	6,602,123,121.84	8,867,630,230.46	36,052,234,285.02
Remittance from January 2023 to May 2023 (=N=)	5,643,562,877.05	7,324,614,272.62	7,406,359,427.43	7,108,312,776.65	7,821,053,995.19	27,482,849,353.75
Payment Variance	944,608,150.60	(736,605,734.16)	(58,060.82)	(506,189,654.81)	1,046,576,235.27	748,330,936.08
Remittance Percentage (%)	86%	111%	100%	108%	88%	76%
Impact of Regulatory Net-Off on IBEDC's MRO						
Combine Minimum Remittance Obligation	8,318,532,396.06	8,207,606,404.82	9,271,421,783.66	8,182,142,010.12	10,388,480,477.48	44,368,183,072.14
Collection	8,044,664,593.11	7,099,200,094.71	9,408,677,744.10	8,340,823,015.26	9,054,575,332.00	41,947,940,779.17
MRO - Collection	(273,867,802.96)	(1,108,406,310.11)	137,255,960.44	158,681,005.14	(1,333,905,145.48)	(2,420,242,292.97)
Regulatory Net-off	3,081,322,718.20	3,081,322,718.20	3,081,322,718.20	3,081,322,718.20	3,081,322,718.20	15,406,613,591.00
Revenue after Remittance with Regulatory Net-off	2,807,454,915.24	1,972,916,408.09	3,218,578,678.64	3,240,003,723.34	1,747,417,572.72	12,986,371,298.03

In light of the above, we propose 100% MO remittance and 40% NBET remittance pending the substantive submission of IBEDC's rate case design.

Strategies in meeting ATC&C and Revenue Projection

We intend to maximize our operational efficiencies and collection in the coming months to enable us meet the rigorous demands of the market. The target is stretching and would require a lot of ingenuity on our part to meet it. Our plan is to leverage on our various proposed/ongoing loss reduction projects as well as other initiatives to not only to achieve but surpass the above target so that we would be able to meet our obligations to the market.

The following section detailed the various initiatives we have put in place to tackle specific segments of our operations.

Metering

As of June 2023, IBEDC had 2,309,296 active customers in its database with just about 980,296 (42%) of these customers were metered. The situation is similar in all Discos and IBEDC intend to fully exploit the National Mass Metering Program (NMMP) to bridge its metering gap while complementing it with MAP which contributed a total of 127,672 to our metering in FY 2022 and also leverage on our internal meter rollout programs. Judicious deployment of the meters under the NMMP will involves a well thought out and articulated strategy designed to ensure that this scarce and expensive resource will have maximum impact and the greatest “bang for the buck”.

Metering Deployment Strategy

Our deployment strategy for NMMP phase 1 is anchored on the 2 principles of-

- Deployment to areas/customers that will have immediate and significant impact on revenue
- Maximum reduction in ATC&C losses

Another of our metering plan is the Collection agent investment into metering, which is to be primarily driven by franchising of part of our franchise area to capable institution for the Metering, Billing and Collection operation in line with the Commission’s guidelines on Franchising.

Also, IBEDC will be taking the advantage of the Commission’s Meter Acquisition Fund initiatives to access metering of 40,000 meters in the Q4 of the FY 2023

Our strategy is tailored towards the peculiarities of the Service Reflective Tariff in terms of feeder/customer classifications and will piggyback on this to achieve the desired result. The strategy is as outlined below.

- The meter roll-out will be on Service Band/Feeder basis.
- Band A Feeder customers will all be metered first before moving to band B, C etc. Band A service band offers the highest tariff and are the creme de la crème of IBEDC customer base.
- Ring fencing of clusters of customers by Distribution Transformers (DT) on each selected Feeder. Each cluster of customers on a DT will be metered fully then the next DT and so on.
- Urban location (which also offers the highest concentration of Band A customers) will be prioritized over any other locations.
- All owing customers to negotiate their outstanding debt and agree a paydown scheme within 30 days of meter installation.
- Extant policy on debt factorization process & approval limits will apply.
- Obsolete meters on customer premises will be retrieved according to laid down policy and procedures.

Re-invigoration of MAP

The Commission have re-introduce the Meter Asset Provider Scheme (MAP) and we have positioned ourselves to take full advantage of this scheme by signing on strong MAP vendors with capabilities to deliver. We strongly believe that we can leverage on the ongoing MAP scheme to cover the bulk of our metering target for FY2023 having achieved over 120,000 MAP meter deployed in 2022.

Aggressive metering of **300,000** unmetered customers with an estimated cost of **₦22,574,664,180** via MAP Scheme, Vendor Financing, Investor funding via franchising and other direct purchase for meter rollout scheme to take our metering level as a franchise above 50% by December 2023

Table below depicts the envisaged number IBEDC intend to deploy through the MAP scheme within FY 2023 to partially cover its metering gap.

Table 8: Customer Meter Deployment Plan for MAP

	Q1 & Q2 Actual	Q3 & Q4 Target	Total
MAP	66,254	86,130	152,384

Distribution Infrastructure Metering

This initiative was aimed at metering all our Distribution Transformers (DT), integration of the DT meters and existing MD meters into the Advance Metering Infrastructure (AMI). Installation of meters on our DTs will enable effective energy accounting, facilitate localization of ATC&C losses for corrective actions and aid performance measurement of field officers.

We contracted 10,000 DT meters to be supplied and installed. This has been fully executed while integration into our AMI infrastructure is almost completed. Efforts is ongoing to build and leverage on Information Technology (IT) platforms to further take advantage of the DT meters by mapping customers to DTs and staff responsible for performance on the DTs. This will enable proper energy accounting, performance measurement and reduction of losses. Furthermore, all MD customers with dedicated transformers will be required to fund their metering needs while IBEDC refunds such customer via energy rebates.

Feeder Metering

NERC issued an order to all DISCO to meter all feeders within their franchise. This is to assist monitor quality and quantity of energy delivered to each feeder remotely. All our feeders were previously metered with panel meters which are not the acceptable trading point meters for commercial operation in the value chain. Metering of our feeders will also impact positively in managing both commercial and technical losses, hence the need to procure these meters. There are 588 feeders of which 355 and 233 are 11 and 33kV respectively.

We have contracted for the supply and installation of 600 feeder meters and contract awarded in August 2020. These meters have been delivered and installed while activation of their AMI capabilities is ongoing.

Revenue Protection

The introduction of the Service Reflective Tariff (SRT) which guarantee minimum hours of supply for an increase in tariff has led to a spike in energy theft as unscrupulous customers attempt to avoid payment for service enjoyed. It is therefore imperative that our Revenue Protection/Meter Monitoring Team is properly and urgently positioned to meet the challenges of the SRT.

IBEDC is committed to protect its revenue stream by ensuring that the challenges posed by the implementation of SRT are tackled and losses reduced to the barest minimum through the strategies below.

- Strict adherence to the metering standard code going forward.
- All installation & installation materials must be of standard approved by NERC.
- Comprehensive and periodic recertification of all meters both MD and NMDs.
- Reading of Prepaid meters consumption by Customer Relation Officer (CRO) as a means of monitoring PPMs.
- Leverage on the billing infrastructure to extract report (un-vended report) meant to guide revenue protection activities surrounding prepaid customers.
- Leverage on the Advance Metering Infrastructure (AMI) to remotely monitor MD customers consumption pattern.
- Leverage on AMI to remotely identify transformers performing sub-optimally or out of commission for possible corrective actions.
- Capture the Meter Seal numbers as part of customer information on the database and reflect same on customers' payment/vending slips to prevent relocation of meters by customers

Third Party Revenue Agents

With commitment to achieve the above, IBEDC has not only rely on in-house human resource but also engaged the services of field expert for operational efficiency as listed below:

1. Sofam Technical Services Limited
2. Ese Tech Nigeria Limited
3. Hareedman Business Solution Limited

Collection Agents and Payment Channels

IBEDC already has a robust array of payment platforms ranging from walk-in payment points to e-channels. Regardless of the fact that, our payment partner FETS is one the best in the industry and has been providing a world class service, we have also promote competition through addition of **iRecharge**, **Netop** and also currently working to add **Interswitch** and **Polaris** which are crucial industry players also in payment aggregation.

We are currently collaborating with **FETS**, **iRecharge**, **Netop**, **Interswitch** and **Polaris** to improve further in these areas-

- **Increase in number of agents:** In the last 3 months FETS increased the number of Agents to about 3000 – from 2,000 in early 2021. Plan is to further increase this to **7,500** in the forth quarter of 2023 while prioritising remote locations. This will bring us closer to our customers, most especially in the remote areas thus, making it easy for customers to pay their bills or vend. This will significantly improve our NMD collection.

- **Deployment of more PoS:** FETS recently deployed 100 androids PoS for real-time online transactions in replacement of some of the offline terminals in our Cash Centers. Additional 400 units are also currently being distributed to Agents, most especially those in remote areas.
- **Deployment of solution to enable all Prepaid Customers vend anywhere-** We currently have about 140,000 prepaid customers using smartcard to buy energy units only in our business premises. (Non-STS meters). We are developing a solution to enable these customers vend seamlessly without needing to come to our office.
- **Increase in e-payment channels penetration-** We have improved the promotion of our e-channels to create more customer awareness through local radios and TVs.
- **Receivable Management-** IBEDC receivables is in the excess of N120 billion. This presents a veritable source of revenue for IBEDC in the short and medium term. We are set to exploit this opportunity by contracting firms with track records in recovery to assist tackle this aspect of our business.

Information Technology Infrastructure

Developments in the industry has made it imperative that we modernize and leverage on technology to make our operations more efficient, service our customers better and drive down operating costs. We are currently deploying a Workforce Management System to enable prompt decision making, information gathering automation, real-time visibility into field activities, improved customer services and revenue generation by meeting/exceeding the new monthly collection target. The modules in this WMS include-

- **Bill Distribution (IN USE):** Developed with GPS technology, this module is used to track customers' bill distribution activities.
- **Meter Reading (IN USE):** -This module leverage on GPS technology to accurately capture postpaid customer actual consumption by ensuring that responsible staff visits customer premises to capture their energy usage data.
- **Customer Evaluation (IN USE):** This module is used to assist the PPM monitoring team to document their finding when conducting field inspections to detect meter bypass and energy thefts.
- **Customer Validation (IN USE):** To assure the accuracy and quality of our customer database, this module is designed to validate existing customer information.
- **Enterprise Resources (IN USE):** IBEDC has commenced the procurement of a robust enterprise management system for efficient market planning and execution.
- **Work Management System (IN USE):** To assure in the management of the working time system, this module is designed for efficient work management system for optimization.
- **Disconnection and Reconnection (AT TESTING STAGE):** This module is designed to simplify the cumbersome process of disconnecting and reconnecting our customers.
- **CRO Performance Tracker (AT TESTING STAGE):** This module will help map each customer to a marketer and ensure that every customer within our franchise have a corresponding marketer responsible for the monitoring, collections, bill distribution, meter reading and first-line contact with our customers
- **Energy Allocation & Utilization:** This module (Distribution Management System) is designed to efficiently carry out energy management and delivery, with the set target of Q4 FY 2023 for its' procurement.
- **New Customer Capture (AT TESTING STAGE):** With the use of this module, the marketers can easily capture the address and coordinate of consumers using the inbuilt GPS, enter basic customer information, which will be forwarded to the appropriate officials responsible for ensuring consumers are converted to customers

Other Performance Improvement Initiatives

Improvement in Energy Supply and meeting Committed Hours of Service: In our projection for energy supply, we considered our projected demand, historical energy supply together with the planned investment of the Federal Government to ramp up energy generation in the next 12 months. Although our projection is at variance with MYTO’s projection, we believe ours is more reflective of reality as, historically, MYTO energy forecast has been difficult to meet.

However, we have considered the CAPEX investment in loss reduction and network improvement that will be funded by the CBN loan during the period covered by this plan (see t Table 18). These investments will allow us to increase our capacity to take the maximum amount of energy available from the grid while also improving our distribution efficiency. Furthermore, increased supply will allow us to channel more energy to customers via feeders in Bands A, B, and C, as well as upgrade feeders in Bands D and E to higher bands as supply to these feeders improves.

CAPEX in Network Investments on Energy Generated: IBEDC expects to undertake network investments over the next year to increase our power supply and unlock more energy to be sold to customers. The CAPEX investments will be funded under non-licensee scheme. Furthermore, we expect that CBN CAPEX loan will be made available to us within the year to enable us expedite the various projects. Table below shows the estimated CAPEX investments over the period.

Table 9: CAPEX Impact on Energy Growth

Period	Expected CAPEX (Nm)
Q1 2023	2.75
Q2 2023	4.46
Q3 2023	6.40
Q4 2023	1.66
Total	15.27

Consequent on the above, revenue is expected to increase substantially as more energy is supplied to feeders with higher tariff, collection efficiency will also improve as customers are more willing to pay for energy consumed when there is steady power supply.

Furthermore, hitherto unexploited opportunities present within IBEDC network due to poor supply will be fully exploited. An example of this unexploited opportunity is the Ibadan Sagamu Interchange axis that has a very high concentration of Maximum Demand customers that are not currently using IBEDC supply due to poor and unstable supply from the grid. The axis has a potential to contribute over N19 billion in annual revenue to IBEDC coffers. We are currently strengthening the distribution infrastructures in the location and in discussion with Transmission Company of Nigeria (TCN) to increase supply to that axis to enable IBEDC sign on these Maximum Demand customers.



Sub-Franchising: IBEDC is currently working on implementing the franchising model within its network with a pilot scheme billed to go live by March 2023. Successful implementation of the pilot scheme and subsequent franchising of other eligible feeders will enable IBEDC to source for additional power supply through embedded generators to complement on grid energy supply.

Feeder Upgrade: We recognized the fact that, for us to meet our SRT commitments and remain profitable, our feeders must be upgraded from lower tariff bands to higher tariff bands. As of October 2022, about 31% and 16% of our main feeders are in bands A and B respectively while 20% and 18% are in bands D and E. Our plan is to ensure at least 60% of our feeders are upgraded to bands A over the next 12 months through targeted CAPEX investments and energy distribution. Due to paucity of funds and profitability concerns, priority will be given to industrial clusters and feeders that services High network individuals (Gated Estates, GRAs etc)

Bilateral Energy: We have conducted Energy Demand Study (EDS) of our franchise area and have confirmed that demand is likely to outstrip supply as indicated in the MYTO in 2023 and beyond. Thus, we have opened discussions with several independent power generators from which we can source power to supplement the national grid's supply.

We estimated that we should be able to obtain additional 150MW from bilateral sources targeted towards industrial estates in Ota, Mowe Ibafo, Sango and Molete industrial parks amongst other areas within our franchise. Discussion is already ongoing with Shell Power Nigeria, Cummings Power, Konexa Nigeria Limited, Globeleq amongst other interested parties.

In conclusion, we believe that successful implementation of all these strategies, coupled with the modest cost reduction CAPEX investment to be funded through the CBN loan will enable us to improve our key performance indices as depicted below. We hope that the Federal Government will release the necessary funds timely to execute the next phase of NMMP and arrangement speedily tidied up to enable us to access the CBN loan for accelerated execution of the associated projects.

Table 10: Expected Impact of Performance Improvement Strategies on Efficiencies

	Aug 2023	Sept 2023	Oct 2023	Nov 2023	Dec 2023
Projected Billing Efficiency	83%	83%	83%	84%	84%
Projected Collection Efficiency	85%	85%	86%	86%	86%
Projected ATC&C	39%	38%	36%	34%	30%

NESI Challenges – Issues

This section summarizes the key issues that have affected our distribution utility since Handover. These issues have been well documented in various communications and fora with the Commission and thus, we will not go into too many details.

Historical Challenges in NESI

Lack of Minor Reviews: Within the period February 2016 to June 2019, no bi-annual minor reviews as provision in NESI enabling laws and MYTO were implemented.

Non-cost reflective tariffs: Since the privatization, the full cost of the electricity value chain has never been allowed to pass through to customers and for three (3) years our allowed tariffs remained constant. Table 12 below shows our yearly cost-reflective and average tariffs over the last five years and the tariff variance. This means that IBEDC have been unable to raise finance from investors and commercial banks for performance improvement

Table 6: Historical Average Tariffs (N/kWh)

	2015	2016	2017	2018	2019	2020	2021	2022
Cost Reflective tariffs	37.65	50.91	51.44	55.42	59.09	57.25	57.8	49.8
Allowed Tariffs	26.88	28.27	30.55	30.55	30.55	34.10	48.2	44.5
Tariff Variance	10.77	22.65	20.89	24.86	28.54	23.15	9.6	5.3

Mismatch in ATCC: Table below shows the breakdown and differences in the MYTO and actual ATCC over the years. Due to the non-cost reflectivity of end-user tariffs and the resultant liquidity issues that have constrained CAPEX financing, IBEDC have been unable to make the necessary required investments to bring down ATCC losses in line with the performance agreement

Table 12: Historical ATCC losses (%)

	2015	2016	2017	2018	2019	2020	2021	2022
MYTO ATCC Losses	43%	36%	29%	29%	29%	23%	18.6%	15.47%
Actual ATCC Losses	41%	49%	48%	50%	46%	56%	52%	33%

MDA collection losses: The MYTO 2015 Financial Model calculated the 2015 tariff shortfall with MDA collection loss removed. The tariffs in the MYTO continued to be calculated without the MDA collection loss for five years, until the December 2020 Minor Review Order, which reinstated the MDA collection loss in the MYTO. Despite the reintroduction of the MDA loss component last year, the reality was that our revenues since 2015 have been underestimated, and our market obligation thresholds overestimated to the detriment of our finances. Table 14 shows the MYTO ATCC before and after the removal of the actual collection loss.

Table 13: Impact of MDA Collection Losses on ATCC

	Unit	2015	2016	2017	2018	2019	2020
MYTO ATCC before MDA Collection Loss removal	%	36%	30%	25%	25%	25%	20%
MYTO ATCC after MDA Collection Loss removal	%	43%	36%	29%	29%	29%	23%
Average Tariff before MDA Collection Loss removal	N/kWh	33.87	46.98	48.45	52.20	55.66	54.77
Average Tariff after MDA Collection Loss removal	N/kWh	37.65	50.91	51.44	55.42	59.09	57.25

In addition to the above, the MDA collection loss was removed from the tariffs with the expectation that MDAs will commence 100% payment of the electricity invoices issued by Disco’s post removal. However, this was not the case for the Discos and no mechanism has been implemented for the payment of these invoices. We are owed a total of N8.5bn in unpaid MDA bills from 2015 to 2020. The table below shows the yearly breakdown of the MDAs owed

Table 4: Annual MDA Debt (N Billion)

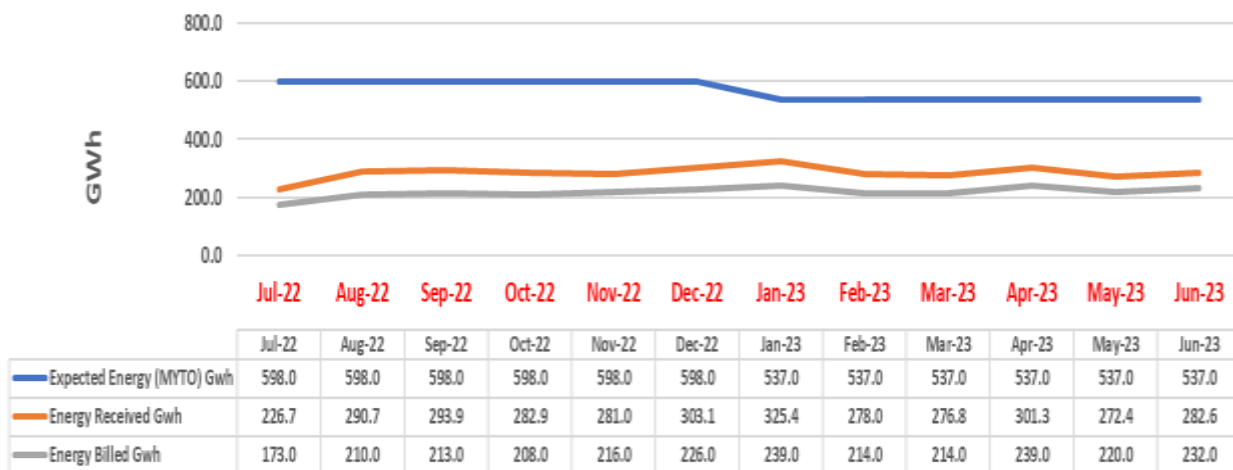
	2015	2016	2017	2018	2019	2020	2021	2022
MDA Debt (N Million)	1,450	1,364	1,263	1,164	1,408	1,860	4,792	3,065

We sincerely appreciate the Commission’s synergized effort with the Federal Ministry of Finance with respect to Power-Tech innovation, which we believe would offer best solution to the dangers posed by the impact of MDA collection losses on the market. IBEDC is currently putting a lot of effort in harnessing this opportunity to shore-up her revenue in this regards.

Poor Energy generation levels: The MYTO 2015 tariffs were designed on the assumption that energy received (generation levels evacuated to the distribution companies) will increase annually, however, this has not happened. The average monthly generation levels since 2013 have fluctuated but have not significantly improved (see figure below) and have been lower than NERC’s projections in tariff orders issued since.

Table 16 below shows the actual energy we received and the MYTO projected energy. At the end of June 2023, the actual energy received by IBEDC was significantly lower than the energy projected in the original MYTO 10-year model.

1- Year Expected MYTO energy allocation vs. energy received and energy Billed



Minor reviews were designed to enable tariff recalibration to maintain revenues at pre-defined levels when actual generation production is less than MYTO model assumptions. Lower generation should result in an upward review of tariffs due to the energy denominator in the cost: energy ratio, and vice versa. However, the end-user tariffs charged to customers were lower than what they should have been as no minor reviews were implemented from 2016 to 2018 and this affected the revenues of the Discos.

Table 15: Energy Generation (GWh)

	2015	2016	2017	2018	2019	2020
MYTO 10 Year Order Projections (GWh)	3,923	5,023	6,715	8,470	9,928	10,797
Actual Energy Sent Out (GWh)	3,510	2,863	3,335	3,484	3,535	3,986

Other problems relating to poor power generation that have curtail our ability to exploit revenue generation opportunities within our franchise include-

- Poor quality of energy supply
- Inability of TCN to wheel energy to where it is most needed within our franchise

All these problems have resulted in key IBEDC's customers exiting our network to source alternative energy supply or plain refusal to draw energy from our grid. Examples of these key customers include- British American Tobacco (BAT), Procter & Gamble (P&G), Nigerian Breweries etc

- **Tariff Shortfalls:** The Federal Government through the commission has net off our tariff shortfall for the period 2015 to 2021 against our market obligations. We hope this trend will continue on 2023 and the shortfall of N18,679 billion captured in the commissions' order NERC/337/2022 will be netted off against our market obligations during the year.
- **Capped Estimated billing Order:** The implementation of the order by IBEDC in March 2020 led to billing efficiency dropping from 84% to 60%, leading to a rise in ATC&C losses. The financial impact for IBEDC is estimated to be N1.7 billion monthly thus compounding our liquidity challenges

Illegal Eligible Customer and IPP Operators

Eligible Customers

Under the regulation, eligible customers are required to apply to NERC for eligible customer status and state their proposed supplier. NERC has not officially granted eligible customer status to any customers yet, but customers are illegally taking advantage of this new regulation. Since 2018, Discos have been reporting that some transmission-connected customers are defecting without approval from NERC. IBEDC currently has 27 customers at risk, with a monthly risk impact of **N1.052 billion**.

Illegal IPP's

We have identified illegal IPP activity by operators who are supplying power to customers who were previously been our customers. There are at least 23 identified illegal IPPs across the Discos networks with excess of 120MW capacity. This capacity is equivalent to 3% of the total merit order dispatch capacity of 4,000MW. We have identified at least 3 of such illegal operators within our network and have escalated the issue to the commission.

Action Steps to Address NESI Challenges

This section summarizes our recommendations to address the challenges in NESI as highlighted above and the immediate actions that can be taken to solve the issues.

Implementation of Tariff Shortfall Deficit From 2021 to date: we applaud the Commission’s efforts in making the market sustainable and whole by recognizing and implementing the tariff shortfall deficits from 2015 – 2020 as prescribed in the “Order on Regulatory Net-offs 2022 for Nigerian Electricity Supply Industry (NESI)”.

While we commend the commission’s effort, we wish to inform the Commission of the urgent need to commence the implementation of the tariff shortfall for the period 2021 till date which currently stands at **N58,399 billion**. The table shows the breakdown of the shortfall from 2021 till date

Table 3: Applicable Tariff shortfall Deficit from 2021 - June 2023

Period	Approved Tariff Shortfall Deficit (N’000,000)
2021	26,343
2022	18,679
Jan – June 2023	13,377
Total	58,399

We believe that the implementation of the shortfalls would change our financial position to net-positive, and in turn, would encourage third-party investment in the NESI.

Non-settlement of Capacity Charge for Loss of Revenue: we humbly invite the Commission to note that since the commencement of the Service-based Tariff regime via the September 2020 Minor Review Order, and other subsequent Minor Review Orders, the Commission has always reiterated that “Where it is established that TCN is unable to deliver IBEDC’s expected energy off-take, TCN shall be liable to pay for the associated capacity charge”. We would like to inform the Commission that since September 2020, TCN has failed to compensate IBEDC for the associated loss of capacity resulting from TCN’s inability to deliver IBEDC’s energy off-take.

Per our review and in line with the MYTO Model, TCN has failed to compensate IBEDC for the associated capacity charge caused by their inability to deliver a total accumulated energy deficit of 264MW from September 2020 to April 2023.

Settlement Mechanism of MDA Debt and Invoices: The payment mechanism for the settlement of MDA debt is currently non-existent. To handle the growing MDA unpaid invoice debt, we request that NERC develops and implements a mechanism to handle the MDA debt. We suggest that NERC applies a portion of the MDA unpaid invoice of **N8.5 bn** (as of December 2020) against our market settlement

Actions/Next steps to be taken.

1. Apply a portion of the total unpaid MDA invoice against Disco’s market invoices.
2. Develop and implement a mechanism for settlement of MDA bills going forward.

Continuous Review of Capping Estimated Billing Order: New metering frameworks have been issued under the MAP and NMMP Metering Order released in August 2021. The Order seeks to close out the metering gap in NESI through multiple avenues running simultaneously. Following the release of this order, we request that NERC recognizes and approves the following:

- The negative financial Impact the Capped Estimated Billing Order has on our revenues, and how this affects the IBEDC's obligations at this crucial time.
- Suspend the implementation of the Order in line with the metering rollout plan and period under the MAP and NMMP regulation.

Actions/Next steps to be taken.

1. Suspend the Implementation of the Capped Estimated Billing Order in line with the meter rollout in the MAP and NMMP regulation.

Effective Implementation of Presidential Power Initiative (PPI): While implementing the PPI programme, it is important that there is an alignment of projects between TCN and IBEDC. The Commission should facilitate the harmonisation of all intervention funded projects to eliminate duplications. It should also provide the necessary oversight to ensure that all TCN interface investments are aligned with IBEDC plans and can be evacuated to IBEDC load centres.

Actions/Next steps to be taken.

1. Commission to facilitate harmonization of intervention funded projects.
2. Commission to provide oversight to ensure TCN projects align with IBEDC plans.

Extension of Tariff Shortfall Support: we urge FGN to extend the support period for an additional 12-18 months, this will enable IBEDC to fully recover from the effect of the non-cost reflective tariffs from handover to date (Over 7 years).

Actions/Next steps to be taken.

1. Extend the tariff subsidy given to customers to enable IBEDC recover from the extended period of non-cost reflectivity of tariffs.

Disbursement of CBN CAPEX Facility: The CBN CAPEX intervention facility is yet to be disbursed to the Discos and TCN. Submission of our detailed plans including investment impact has been made to the Commission. Due to the long lead time of certain network investments, further delays in the release of funds will result in incremental project costs to account for significant changes in macroeconomic indicators. Reliable power supply improvement and revenue ramp-up expected for us can only be attained with timely network investments. Therefore, we urge the Commission to liaise with CBN for prompt release of funds to finance our CAPEX plan.

Actions/Next steps to be taken.

1. CBN should facilitate the disbursement of the CAPEX facility to improve the ramp up of our investments in our network.

Establishing the Independent System Operator: The Independent System Operator (ISO) is conceived to be jointly owned by the operators in the market and operate independently of the government to be fully impartial and professional in the dispatch of energy. The Transmission Service provider (TSP) and ISO have since received two separate and independent licenses to function and operate and are regulated independently by NERC. The commissions should therefore immediately implement the separation of these companies to ensure confidence and trust in the market; especially as they would be playing a major role in disputes between TCN and Discos on service failures.

Actions/Next steps to be taken.

1. Creation of an Independent System Operator (ISO).

Generation Shortfall: The Market Operator (MO) bills issued monthly acknowledges a generation shortfall in some months. While the MO bills keep track of this shortfall in the bill, there is currently no compensation mechanism for this shortfall to the Discos. The OPEX required to run the Disco is calculated based on an energy level which we expect to receive monthly to run efficiently. Any reduction to this energy projection directly affects our ability to operate efficiently and make required investments in our business. The table below shows our monthly generation shortfall from March to June 2021. It also shows a loss of revenue of N1.4 bn. Energy shortage risk should be best allocated to the parties on the value chain responsible for the risk and not placed on Discos. We expect that the Commission will in future Tariff Orders address the issue of energy shortages and define a mechanism for us to recover our historical revenue losses. Table 7 below shows our monthly generation shortfall for the last 4 months.

Table 7: Loss of revenue on generation shortfall

Period	Generation Shortfall GWh	Actual IBEDC Cost (N/ kWh)	Loss of revenue Nm
	(A)	(B)	(C) = A*B
April	12.64	15.46	195.47
May	26.88	15.46	415.49
June	34.65	15.46	535.65
July	16.67	15.17	252.83
Total	90.83		1,399.44

This impact of this generation shortfall should be a deficit to either TCN for failure to dispatch or the Gencos for failure to generate.

Additionally, our NBET bills show a capacity and energy charge. This means we are billed separately for capacity delivered and energy delivered, and the energy equivalent of the capacity is typically higher than the energy delivered to us. This is still the case when energy deficits due to IBEDC are accounted for by the MO, therefore



the disparity cannot be attributable to IBEDC. While the MYTO model projects that we receive the energy equivalent of the capacity billed as described, this is usually not the case. This means IBEDC continue to pay for undelivered capacities due to other members of the value chain. Any capacity charge higher than our MYTO capacity allocation and the actual capacity delivered by TCN should not be charged in the invoices issued. Any undelivered capacity charged to IBEDC should be borne by either TCN or the generation companies. The continued imposition of electricity value chain inefficiencies on IBEDC will only result in further losses, encourage market illiquidity, and deny customers of reliable services

Actions/Next steps to be taken.

1. NERC to address generation shortfall risk allocation.
2. NERC to address undelivered capacity billed by NBET.

Financing Plan

Despite the various challenges bedevilling the power industry and the peculiar issues in IBEDC operating environments, we have positioned ourselves to ensure we improve our performance given the resources at our disposal.

We have developed robust initiatives to enable us meet our projections and below is a summary of our funding plan for the initiatives.

Below is a summary of our financing plan for the period under review.

Table 17: Funding plan

Initiatives	Nos	CAPEX (Nm)	Funding Sources
Customer Metering	300,000	22,500	MAP metering scheme NESI's MAF Scheme Vendor Financing Disco's IGR Collection Agent Investment
Network Metering	N/A	N/A	Non-Licensee Investment Franchising CBN Loan Vendor Financing
Network Upgrade & Expansion		15,270	Non-Licensee Investment Franchising CBN Loan

We therefore seek the Commission's cooperation in creating an operating environment that allows us to achieve optimal operational improvements, improved revenues, and premium customer service to fulfil our goals by ensuring the following:

- Continued execution of cost reflective tariff.
- Access to FGN CAPEX loan to enable accelerated execution of associated projects.
- Continued support of FGN in the power sector especially in the aspect of metering, CAPEX etc at least in the short term.
- Removal of Mokwa and New Bussa communities from our franchise.
- Recognition and utilization of the historical net shortfalls and MDA debts in settling market obligations.
- Deduction of MDA payment for energy utilize at source for enable seamless relationship.

Summary of IBEDC's Rate Case Design

This section summarizes our Rate Case Design and gives a snapshot of all the key issues and recommendations earlier discussed in this document as well as our requests.

IBEDC's Rate Case Design Summary

- ATCC projected to reduce from **46%** in May 2023 to **30.70%** in December 2023.
- OPEX adopted is the barest minimum IBEDC projected to run its operations.
- Adopted MYTO approved OPEX.
- The plan projects that an average NBET payment of **40%** over the next 12 months.
- IBEDC projected to be self-sustaining i.e be able to fully pay all market obligations by **June 2024**.
- Impact of Mokwa and New Bussa communities on ATC&C (about 1.5%) not adjusted on the projected ATCC losses.
- Strategies already mapped out and being implemented to ensure performance metrics envisaged in projections are achieved. These strategies include those on-
 - Customer and Distribution Infrastructure metering
 - Revenue Protection and Loss Reduction
 - Feeders Upgrade
 - Bilateral Energy and Franchising
 - Network Upgrades and Efficiency Improvement

Requests/Prayers

- The Commission to consider and approve our tentative rate case design in lieu of the substantive for the period August 2023 to December 2023.
- Continued recognition and utilization of the historical net shortfalls and MDA debts in settling market obligations.
- Expedite the conclusion of arrangement to access the FGN CAPEX loan to enable accelerated execution of associated projects.
- Continued support of FGN in the power sector especially in the aspect of metering, CAPEX etc at least in the short term.
- De-recognition of the energy consumed by Mokwa and New Bussa communities in our monthly NBET and MO bills.
- Expedited implementation of all recommendations proposed to tackle NESI issues as highlighted in this report.
- Deduction of MDA payment for energy consumed at source to enable seamless relationship.

CAPEX Investment

Table 18: Summary of CAPEX investment

S/N.	PROJECTS DESCRIPTION	COST ESTIMATE (₦m)
1	Distribution Network Capex	15,037
2	Construction of 33KV Feeder	1,575
3	Rehabilitation of 33KV Feeder	2,159
4	Construction of 11KV Feeder	1,577
5	Rehabilitation of 11KV Feeder	836
6	Construction of 0.400KV Feeder	1,885
7	Distribution Transformer Plan	1,451
8	MVA Substation Transformer Plan	4,111
9	Switch Gears	1,433
10	ATC&C Loss Reduction Plan	473
11	IT Investments (SCADA+GIS+ERP+HSE)	242
12	HSE Initiatives	242
13	Network Metering Capex	2,683
14	Others (Toolkit, Ladders etc)	1,794
	TOTAL	20,229

Whilst counting on the Commission's support in the grant of our request for extension, please accept the assurances of the Management's esteemed regards.

Yours faithfully,

For: Ibadan Electricity Distribution Company Plc

Engr. Kingsley ACHIFE
Managing Director