

KAEDC/CEO/NERC/2023/192

3rd July 2023

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

Attention: Commissioner, Market Competition and Rates

Dear Sir,

REQUEST FOR A RESET OF KADUNA ELECTRIC TARIFF PARAMETERS

This letter seeks the considerations of the Nigerian Electricity Regulatory Commission (NERC) for a reset of Kaduna Electric Tariff Parameters in aid of our sustainability plan and improved overall performance.

We refer to our letter KAEDC/CEO/NERC/2023/191 dated 27th June 2023 which provided the Commission with a report on the ongoing corporate turnaround actions of Kaduna Electric for the period July 2022 - May 2023 and highlighted the current Multi-Year Tariff Order (MYTO) Model as part of the key issues militating against our performance.

In furtherance of this, we request the Commission to oblige Kaduna Electric with the opportunity for a rate review that accommodates various concerns regarding our tariff parameters. We believe these proposed adjustments are necessary to align with our current operating realities and to improve our overall performance.

Accordingly, the major parameters for which we seek consideration to be reset are outlined below:

1. ATC&C Loss Levels: As part of the privatization process, the previous Core Investors committed to a steep loss reduction trajectory for Kaduna Electric, aiming to reduce ATC&C losses to 6.6% by the end of year five of the Performance Agreement. However, the company currently operates at an ATC&C loss level above 70%. This is as a result of various factors such as non-payment of electricity bills by Government Ministries, Departments and Agencies (MDA), security challenges within our Franchise Areas, years of insufficient investments, prevalence of energy theft, and payment apathy stemming from socio-economic factors.

The commitment to 6.6% ATC&C loss levels has significantly impacted Kaduna Electric operational efficiency, as this level is used to determine our retail end-user tariff and the Minimum Remittance Obligations (MRO) to the Market. Accordingly, the current assumption does not accurately reflect the current reality faced by Kaduna Electric and greatly distorts the company performance. Despite our best efforts to improve performance, meeting the expectations set by the Tariff Order in its current form has proven exceedingly challenging.

To address this, Kaduna Electric proposes a reset its ATC&C loss level to 35%, which we believe is in tandem with achieving a more attainable loss reduction trajectory. Below is a summary of the current and proposed ATC&C loss levels.

Current ATC&C Loss Level	Proposed ATC&C Loss Level
6.6%	35%

Table 1- ATC&C Loss Level

2. Energy Delivered to DisCo: Kaduna Electric is projected to off-take **2,426 GWh** and **2,749 GWh** for 2023 and 2024 respectively. A significant portion of the energy delivered goes to high-loss rural feeders located in security-challenged areas. This makes revenue recovery difficult and impacts Kaduna Electric ability to meet up with its market obligations as required by the Minimum Remittance Order (MRO) provided in the December 2022 MYTO Minor Review Order.

Considering the impact of energy delivered on our end-user tariff and penalties associated with the inability to fully off-take power in these non-viable areas, it is crucial to adjust the energy commitment to a figure that can be feasibly delivered to economically viable areas where revenue recovery is guaranteed.

In view of the above, Kaduna Electric proposes a reduction in the amount of energy delivered to us to a more realistic figure for 2023 and 2024 as presented in Table 2 below.

Year	Current Energy Delivered (Gwh)	Proposed Energy Delivered (GWh)
2023	2,426	2,224
2024	2,749	2,493

Table 2- Energy delivered to DisCo

The energy offtake may gradually increase as Kaduna Electric continues to implement loss reduction investments, various turnaround initiatives, and subsequently improves its operational efficiency.

3. Capex and Opex Provision: In light of inflation and currency devaluation, Kaduna Electric seeks clarification on the process and factors considered in determining the assumptions made in the tariff model regarding the following parameters:

- a. **Annual Capex:** The current annual nominal Capex provision of ~~N36.674Bn~~ which covers Kaduna Electric investment plan as approved by the Commission in our Performance Improvement Plan.
- b. **Annual Opex:** The Opex provision of ~~N24.019Bn~~ which caters to Kaduna Electric operational expenditure requirements and supports our day-to-day operations.

4. Meter Rollout Plan: Recognizing our obligation to close the metering gap within our customer base, which currently stands at approximately 70%, Kaduna Electric has initiated a plan to deploy 100,000 meters over a twelve-month period. This strategic initiative aims to increase projected monthly revenue by N1.25Bn. As such, we have engaged three local meter manufacturers to commence the initial installation of 10,000 units, with a goal to scale up the supply and installation to 100,000 units within 24 months. We eagerly await the operationalization of the Metering Access Fund (MAF) under the National Mass Metering Project Phase to further support this effort.

In support of our application, we have adjusted these proposed parameters in our MYTO Model (see attached USB flash drive) for the consideration of the Commission.

5. Prayers

Given the foregoing, the Commission is kindly invited to:

- a. Approve the proposed reset of Kaduna Electric loss level assumptions in the Multi-Year Tariff Order (MYTO) Model to accurately reflect our current reality.
- b. Approve the reduction in the amount of energy delivered to Kaduna Electric to the figure presented above, in order to facilitate our compliance with the Market obligations stipulated in the MRO.
- c. Provide clarity on the process and factors considered in determining Kaduna Electric Capex and Opex assumptions, taking into account inflation and currency devaluation.
- d. Facilitate the operationalization of the Metering Acquisition Fund to support Kaduna Electric metering initiative and further close our metering gap.

Kaduna Electric appreciates the Commission for its commitment towards ensuring the sustainability the Nigerian Electricity Supply Industry as well as its efforts in enabling Electricity Distribution Companies earn a fair return on their investments through the periodic release of regulations and orders.

We look forward to your favourable considerations in aid of the foregoing.

Thank you.

For: **Kaduna Electric**



Yusuf Usman Yahaya
Managing Director/Chief Executive officer