**PHED/REG/23/06/OT/NERC/202** **06th July 2023**

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

Dear Sir,

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

We appreciate the Commission for allowing us to file a rate case. In line with the Commission directive, we have structured the MYTO (Multi-Year Tariff Order) model to ensure that it captures the current realities and challenges faced by our company in providing reliable and efficient electricity distribution services to our esteemed customers. We believe that the rate case we have submitted adequately justifies our position and addresses the various concerns outlined. Detailed below is a description of the key assumptions reviewed in the attached Model.

1. **Review of our Base ATC&C Assumptions.**

It is pertinent that ATC&C losses reflect current reality in line with dynamics affecting the industry such as floating of the dollar and the effect of removal of fuel subsidy. This move will stimulate further performance improvement consistent with what has been achieved so far. We closed 2022 at an ATC&C of 47% and In June 2023, we achieved 39.42%, an average drop of 7%. This is a testament to our commitment to aggressively reduce ATC&C in tandem with performance improvement. It is on this premise that we propose a review of the current ATC&C loss trajectory to reflect 39%. The incremental revenue and subsequent collections would allow further improvement to a committed 5% on a yearly basis.

2. **FOREX Assumptions**

A review of Forex assumptions showed that the assumption of N639.10 to a Dollar is not a reflection of reality as determined by the market today. This if not addressed will create a shortfall on Forex that cannot be recovered or accounted for. Consequently, we are proposing a review of the assumption to reflect the price as of today (N780).

Additionally, a systematic review of the pricing where there is an increase or decrease of more than 5%, should also be implemented to ensure continuous reflection of this very key cost element.

**3. Review of Operational Cost**

Currently, our approved fixed Opex is only 11% of our revenue against the obtainable industry average of 25%. Despite this, we have shown remarkable improvements in our expected KPIs and will continue to drive improvements.

Consequent to the above, our current monthly OPEX allocation of N668,000,000 falls short of meeting our working capital needs and recurring expenses of N1,129,673,720.00, therefore, we respectfully request an upward revision of the amount from N668,000,000 to N1,437,719.340,000 taking into consideration the escalating costs associated with obligations, overhead, network maintenance, security of equipment, and ongoing projects and constructions. See Annexure A for a breakdown. This also factors in a potential increase in staff cost that is currently being processed following the removal of the subsidy. This Cost of Living Adjustment (COLA) Program is key following the recent happenings in the economy following subsidy removal.

**4. Energy Allocation:**

We have carefully analyzed the energy allocation aspect of our tariff parameters. Recognizing the importance of fair distribution and availability of electricity to all our customers, we have taken into account the current energy consumption patterns, load profiles, and supply-demand dynamics in our service area. This analysis shows that despite our best efforts, only 66% of our energy goes to critical Band A, B, and C bands. This is not unconnected to the TCN constraints yet to be resolved, even as we work towards improving internal network challenges with our capacity through various funding options.

We understand the need to strike a delicate balance between affordability for consumers and the financial viability of our operations. In the Rate case, we have considered energy allocation as a key factor in achieving cost reflective tariff.

**<u>Analysis of Our Proposal</u>**

These four (4) key assumptions were reviewed in line with our current realities as contained in the attached Annexure B and give us an average Tariff of N128.7 with the allocation across Bands indicated in Table 2. It is expected that this tariff coupled with proposed strategies for operational optimization would further improve our performance as a Disco.

**Proposed Shortfall Dynamics**

Following a simulation of the above on our average energy consumed, we are proposing a shortfall regime that would allow us to recover only part of this determined tariff in 2023 and spread the balance in subsequent years as we achieve the proposed ATC&C loss targets. This would ensure that:

1. The impact on customers is properly spread over the proposed duration and hardship is better managed.
2. Collections shortfalls that would have been incurred as a result of the increase in tariff would be mitigated.
3. The business does not suffer and the entire value chain is covered as the proposed tariff would take care of all our remittances and the shortfall would be taken from the Disco recovery.

In addition to the above, we request a hearing before the Commission, to present our issues and concerns and show cause for the Commission's kind intervention, support, and consideration.

While thanking the Commission for its anticipated swift response, please, be assured of our esteemed regards.

Yours faithfully,
**For: Port Harcourt Electricity Distribution PLC**

**Dr. Benson Uwheru, FCIB**
Managing Director/CEO