ORDER NO: NERC/2023/034

BEFORE THE NIGERIAN ELECTRICITY REGULATORY COMMISSION IN THE MATTER OF THE MULIT-YEAR TARIFF ORDER (MYTO) 2024 FOR THE TRANSMISSION COMPANY OF NIGERIA PLC

TITLE

1. This regulatory instrument shall be cited as the **Multi-Year Tariff Order ("MYTO") 2024 for the Transmission Company of Nigeria Plc ("TCN").**

Commencement

2. This Order shall take effect from 1st January 2024 and it shall cease to be effective on the issuance of a new tariff review order for Transmission Company of Nigeria Plc ("TCN") by the Nigerian Electricity Regulatory Commission ("NERC" or the "Commission").

OBJECTIVES

3. This Order seeks to:
   a. Ensure sustained improvement in service delivery through the implementation of the Performance Improvement Plan ("PIP") of the TCN for 2024 -2027.
   b. Ensure that prices charged by the TCN are fair to customers and are sufficient to allow TCN to recover the efficient cost of operation, including a reasonable return on the capital invested in the business in line with section 116 of the Electricity Act 2023 ("EA" or "the Act").
   c. Provide appropriate incentives towards ensuring continuous improvement in the TCN's performance in reducing network losses.
   d. Steer the market to gradually transition to Cost-Reflective Tariffs ("CRT") and activate market contracts in line with the requirements of the Market Rules.
   e. Reaffirm the obligation of the System Operation ("SO") Division of the TCN to comply with the Economic Merit Order Dispatch ("EMOD") prescribed in this Order.
   f. Reaffirm the obligation of the Transmission System Provider ("TSP") under the TCN for the payment of "generation capacity charge" and "loss of revenue" to Electricity

Distribution Companies ("DisCos") based on the deviation between energy delivered to a DisCo and the MYTO allocation arising from the TCN's inability to deliver power to the affected DisCo.

g. Reaffirm the obligation of DisCos for the payment of "loss of revenue" in favour of the TCN in line with the provisions of the executed Service Level Agreement ("SLA").

CONTEXT

4. The Power Sector Recovery Program ("PSRP") of the Federal Government of Nigeria ("FGN") requires the Commission to implement robust tariff review processes aimed at improving service delivery across the value chain of the Nigerian Electricity Supply Industry ("NESI"). In this regard, the TCN in November 2022 submitted its 3-year (2024 – 2026) Performance Improvement Plan ("PIP") and Capital Expenditure ("CAPEX") programme for the consideration and approval of the Commission in line with the extant regulations and the Guidelines on Performance Improvement Plan for TCN (2022).

5. The PIP shall be the basis for TCN to prioritise the implementation of its proposed CAPEX initiatives for improved performance to meet the current and future demands of the NESI. The PIP has been subjected to various stakeholder consultations including a Public Hearing held on 4th December 2023 to ensure alignment in the determination of priority objectives and project selection for effective implementation. Based on the feedback received during the consultations, the Commission considered and approved on 28th December 2023 the PIP of TCN for 2024 – 2026.

6. Pursuant to the approval, the TCN shall implement the proposed interventions in PIP to achieve the following:
   a. Efficient dispatch of generation and reduced transmission losses
   b. Complete short- and medium-term system visibility
   c. Improve transmission line performance
   d. Improve network reliability and frequency control
   e. Improve the meter management system
   f. Improve long-term network visibility, communication and SCADA
   g. Enhance network protection systems
   h. Improve grid safety and security

7. Specifically, the major targeted outputs by TCN are summarised as follows:
   a. Reduction in Transmission Loss Factor ("TLF") to 6.50% in 2026
   b. Meet 100% of the DisCos' energy needs as approved by the Commission
   c. Achieve 100% visibility of the grid through the implementation of SCADA
   d. Achieve 100% energy accountability and 0% metering errors
   e. Reduce accidents and improve safety and protection in grid operations

RESULT OF PIP REVIEW

8. Following the approval of TCN's PIP, Tables 1 and 2 below show the corresponding annual approved CAPEX and OPEX provisions in TCN's revenue requirement for the period 2024 to 2026:

Table – 1: Approved Annual TCN CAPEX

Year	2024	2025	2026
	Period – 1	Period – 2	Period – 3
	N000,000	N000,000	N000,000
DisCos – Prioritized			
Annual Proposed CAPEX	50,000	50,000	50,000
Annual Approved CAPEX	47,199	47,199	47,199
TSP – Prioritized			
Annual Proposed CAPEX	49,160	49,160	49,160
Annual Approved CAPEX	42,881	42,881	42,881
ISO – Prioritized			
Annual Proposed CAPEX	8,157	8,157	8,157
Annual Approved CAPEX	8,158	8,158	8,158
TCN – Total CAPEX			
Annual Proposed CAPEX	**107,317**	**107,317**	**107,317**
Annual Approved CAPEX	**98,239**	**98,239**	**98,239**

Table 2: Approved 3-year TCN Operating Expenses

Year	2024	2025	2026
	Period – 1	Period – 2	Period – 3
	N000,000	N000,000	N000,000
ISO			
Annual Proposed OPEX	49,500	49,500	49,500
Annual Approved OPEX	33,807	33,807	33,807
TSP			
Annual Proposed OPEX	64,000	64,000	64,000
Annual Approved OPEX	60,101	60,101	60,101
Annual SLA Loan Repayment			
Proposed Loan Repayment	10,745	15,018	15,019
Approved Loan Repayment	10,745	15,018	15,019
Ancillary Services Costs			
Proposed Ancillary Services Costs	7,250	7,250	7,250
Approved Ancillary Services Costs	7,250	7,250	7,250
TCN - Total OPEX			
Annual Proposed OPEX	**131,495**	**135,768**	**135,769**
Annual Approved OPEX	**111,903**	**116,176**	**116,177**

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Table 3: Approved 3-year TCN Total Revenue Requirement

Year	2024	2025	2026
	N000,000	N000,000	N000,000
Total Proposed CAPEX	107,317	107,317	107,317
Total Proposed OPEX	131,495	135,768	135,769
Total Proposed Revenue Requirement	238,812	243,085	243,086
Total Approved CAPEX	**98,239**	**98,239**	**98,239**
Total Approved OPEX	**111,903**	**116,176**	**116,177**
Total Approved Revenue Requirement	**210,141**	**214,414**	**214,415**

RING-FENCING OF REVENUE FOR PIP IMPLEMENTATION

9. The Commission has approved ₦210.14 billion as the 2024 revenue requirement for the TCN comprising N98.24 billion for CAPEX (46.7%) and ₦111.90 billion OPEX (53.3%). The approved revenue requirement is provided to enable the TCN to prudently finance the implementation of the approved PIP to enhance service delivery in line with FGN policy objectives in the NESI. Thus, it is hereby ordered with effect from 1st January 2024, that TCN is required to:
   a. Establish a PIP Implementation Dedicated Account to fund the implementation of approved PIPs;
   b. Remit 46.7% of its monthly market/tariff revenues into the PIP Implementation Dedicated Account;
   c. Utilise the funds accrued to the PIP Implementation Dedicated Account strictly for the implementation of the approved PIPs;
   d. Provide the Commission with monthly reports of the schedule of remittance to and utilisation from the PIP Implementation Dedicated Account.

10. **Annual Update of TCN-PIP:** TCN shall be required to provide an annual update to the PIP to reflect the proposed investment programme as part of the review of its revenue requirement/tariffs continuously. The Commission recognizes the PIP as a dynamic roadmap that TCN envisions to be in the next three (3) years and will continue to evolve in alignment with market development and changes to the operating environment. TCN may invest more than the indicated annual CAPEX provision in any particular year on account of front-loading proposed future investments or due to the unanticipated critical investment needs subject to the approval of the Commission.

11. **CAPEX CLAW BACK:** Annual CAPEX provisions that are unutilized or imprudently expended shall be clawed back during subsequent tariff reviews in line with the requirements of Section 7(a) of Regulations on Procedure for Electricity Tariff Reviews in the NESI.

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MINOR REVIEW INDICES

12. In line with the subsisting MYTO methodology, the underlisted indices with potential impact on electricity rates were considered as applicable:

    a. **Nigerian Inflation Rates:** The Nigerian rate of inflation for November 2023 as obtained from the National Bureau of Statistics ("NBS") was 28.20%. This rate was adopted to project Nigerian inflation rates for the year 2024 and beyond.

    b. **Foreign Exchange Rate:** The Naira to the US Dollar foreign exchange (FOREX) rate of ₦919.39/US$1 representing the average FOREX rate of ₦911.29/US$1 during 18 - 22 December 2023 as obtained from the website of the Central Bank of Nigeria ("CBN") plus 1% in line with the MYTO methodology, was adopted to project the Naira to US Dollar exchange rate.

    c. **US Inflation Rates:** Based on the data obtained from the United States Bureau of Labor Statistics (http://www.bls.gov), the US inflation rate for November 2023 was 3.10%. This rate was adopted for this review to project US Inflation rates for the year 2024 and beyond.

    d. **Average Generation Capacity:** In consideration of periodic reports from the System Operator, a projection of an average sent-out generation of 4,760MWh/h is adopted for 2024.

    e. **CAPEX Adjustment:** Pursuant to the provision of Section 7(a) of Regulations on Procedure for Electricity Tariff Reviews in the NESI, adjustments were made to TCN MYTO CAPEX provisions to account for material variances between the actual CAPEX utilisation and MYTO CAPEX provisions.

SUMMARY OF TARIFF INDICES AND RESULTS

13. Table 1 below provides a summary of the tariff review parameters and corresponding generation and transmission tariffs for 2024. Appendix – 1 provides details of the transmission and administrative charges per DisCo.

Table 4: Projected Indices and Results of the Tariff Review

Parameter	Unit	2024
Nigerian Inflation	%	28.20%
US Inflation	%	3.10%
Exchange Rate ₦/$	₦	919.39
Transmission Loss Factor	%	7.00%
Sent-out from Generation	GWh	41,702
Exports and Eligible Contracts	GWh	4,076
Delivered to DisCos	GWh	34,707
Delivered to DisCos	MWh/h	3,962
Generation Cost	₦/kWh	63.8
Transmission & Admin Cost	₦/kWh	6.86

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ECONOMIC MERIT ORDER DISPATCH

14. The Economic Merit Order Dispatch ("EMOD") prescribed for January 2024 – June 2024 is based on 2023 average generation capacities to the partially activated contracts with the Nigerian Bulk Electricity Trading Plc ("NBET") to honour the revised Vesting Contracts delivery commitments to the DisCos. The EMOD prescribed in Table 4 below shall guide the basis for dispatch by the System Operator from January 2024 – June 2024.

Table 5: Economic Merit Order Generation Dispatch January 2024 – June 2024

Merit Order	GenCo	Average Sent out Generation	Load Factor
		MWh/h	%
1	Shiroro	238	95%
1	Jebba	285	95%
1	Kainji	333	95%
1	Azura	428	95%
2	Okpai	315	90%
2	Shell	315	90%
2	Omotosho Gas	167	90%
2	Olorunsogo Gas	167	90%
3	Egbin	583	83%
3	FIPL- Trans-Amadi	38	83%
3	FIPL-Omoku	60	83%
3	FIPL-Rivers	82	83%
3	Transcorp Ughelli	373	78%
3	Trans Afam	40	83%
3	Geregu - Gas	200	83%
3	Mabon	25	83%
3	MEPP	23	83%
3	Ibom Power	32	83%
3	Sapele IPP	50	83%
3	Calabar NDPHC	267	83%
3	Olorunsogo NDPHC	52	83%
3	Geregu NDPHC	52	83%
3	Ogorode NDPHC	52	83%
3	Omotosho NDPHC	83	**83%**
	Sent Out Generation to DisCos	**4,260**	**87%**
	Gross Exports and Eligible Contracts	**500**	
	Total Sent Out Generation	**4,760**	

DISCOS' CONTRACTED CAPACITIES

15. Table 5 below provides the revised minimum energy offtake commitments/requirements of the DisCos in tandem with the terms and conditions under the partially activated contracts with NBET and the Service Level Agreements with the TCN. Subject to the changes in this Order, the System Operator (SO) shall abide by the provisions of the Addendum to the Guidelines for the Implementation of Economic Merit Order Dispatch and Other Related Matters 2023 to ensure efficient dispatch of the contracted capacities during this period. The contracted capacities in Table 5 below shall apply from January 2024 – June 2024.

Table 6: DisCos' Contracted Capacities

NBET's Contracts		Load Allocation Based on Total Sent-out Generation	
		<4,100 MW OR =>4761MW	<4761MW =>4100MW
Disco	**Offtake**	**Load Allocation**	**Load Allocation**
Abuja	611 MW	15.42%	611 MW
Eko	513 MW	12.94%	513 MW
Ikeja	603 MW	15.22%	603 MW
Benin	325 MW	8.20%	14.53%
Enugu	286 MW	7.22%	12.79%
Ibadan	478 MW	12.06%	21.38%
Jos	225 MW	5.68%	10.06%
Kaduna	258 MW	6.51%	11.54%
Kano	268 MW	6.76%	11.99%
Port Harcourt	283 MW	7.14%	12.66%
Yola	113 MW	2.85%	5.05%
Delivered to DisCos	3,962 MW	100.00%	100.00%
Transmission Loss (7%)	298 MW		
Sent-out Generation	4,260 MW		

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CAPACITY PAYMENT

16. The average tariff for DisCos was determined considering their projected energy offtake and allocated capacities under the gradual/partial activation of contracts with NBET and other bilateral suppliers. NBET shall continue to invoice DisCos for capacity charge and energy based on their load allocation and metered energy respectively. Where it is established that TCN is unable to deliver any 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 and with the provisions of the applicable MYTO Order.

LOSS OF REVENUE

17. TCN is obligated to deliver power at DisCos' trading points per the DisCos' day ahead nomination, load allocation under the vesting contract between the NBET and the DisCos, and the Service Level Agreements (SLA) signed between TCN and the DisCos. Where it is established that TCN is unable to deliver the load allocation to a DisCo due to constraints in its (TCN's) network, TCN shall be liable to compensate the DisCo for the associated loss of revenue. Where a DisCo fails to offtake its load allocation due to constraints in its network, the DisCo is obligated to compensate TCN for loss of revenue arising from the stranded capacity as allocated in its Vesting contract and with the provisions of the applicable MYTO Order.

PAYMENT DISCIPLINE

18. In line with the provisions of the Market Rules, this Order mandates the Market Operator to ensure 100% payment compliance by market participants through strict enforcement of posting valid payment guarantees and other securitisation arrangements in line with Market Rules. Market Operator and Market Participants shall be held liable for relevant penalties/sanctions where they fail to enforce or comply with their enforcement/payment obligations in any payment cycle in accordance with the provisions of the Electricity Act and the terms and conditions of their licences and permits.

EFFECTIVE DATE

19. This Order shall be effective from 1st January 2024.

Dated this 28th December 2023

28/12/2023

Sanusi Garba
Chairman

Musiliu O. Oseni
Vice Chairman

Appendix – 1:

Breakdown of TCN and Admin Charges January – June 2024

DisCo	TSP	SO	MO	Ancillary	Regulatory	Bulk Trader	Total
	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh
ABUJA	4.305	0.800	0.127	0.187	1.311	0.100	6.829
BENIN	4.305	0.800	0.127	0.187	1.350	0.100	6.868
EKO	4.305	0.800	0.127	0.187	1.332	0.100	6.850
ENUGU	4.305	0.800	0.127	0.187	1.366	0.100	6.884
IBADAN	4.305	0.800	0.127	0.187	1.361	0.100	6.879
IKEJA	4.305	0.800	0.127	0.187	1.319	0.100	6.837
JOS	4.305	0.800	0.127	0.187	1.337	0.100	6.855
KADUNA	4.305	0.800	0.127	0.187	1.393	0.100	6.911
KANO	4.305	0.800	0.127	0.187	1.376	0.100	6.894
PORT HARCOURT	4.305	0.800	0.127	0.187	1.365	0.100	6.883
YOLA	4.305	0.800	0.127	0.187	1.348	0.100	6.866