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## NIGERIAN ELECTRICITY REGULATORY COMMISSION

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### CONSULTATION PAPER ON THE RATE REVIEW OF ABA POWER LIMITED ELECTRIC NOVEMBER 2024

#### PURPOSE

This document sets out for consultation, the proposed rate case review of Aba Power Limited Electric ("APLE") application in the determination of distribution tariff for efficiency improvements with a view to passing on the cost to end-users. Specifically, the consultation focuses on a proposed review of end-user cost reflective tariff from the weighted average tariff of N122/kWh in the approved Multi-Year Tariff Order 2023 ("MYTO 2023") for APLE to N240.8/kWh. This consultation process is an integral part of the Extraordinary Tariff Review process the Commission is undertaking to reflect the changes in macroeconomic indices, capital investments and increase in generation cost in accordance with the extant industry rules.

The consultation paper solicits stakeholders' comments and reviews with a view to improving supply availability and reliability and fair tariff to allow recovery for prudent costs and a reasonable return on capital invested by APLE.

#### CONTEXT

Aba Power Electric Limited ("APLE") is the Electricity Distribution company of Aba Integrated Power Project ("Aba IPP") licensed by Nigerian Electricity Regulatory Commission ("NERC" or the "Commission") in 2007 to generate and distribute power from its 141MW power plant. APLE took over all distribution assets in the Aba and Ariaria Business Units known as the Aba Ring Fence Area ("ARFA") from Enugu Electricity Distribution Company ("EEDC") on February 16, 2022. Since acquisition of the ARFA, APLE has undertaken investments in the ARFA to make the network stable and efficient.

Currently, APLE periodically procures electricity from NDPHC's Alaoji Generation Company under a PPA approved by NERC and sells to all customer classes in the ARFA comprising of 9 out of the 17 Local Government Areas of Abia State. APLE has been operating with tariff approved in October 2022. Hence the request for approval of a tariff for APLE to reflect the current macro-economic conditions that affect APLE operations after the tariff review.

The Nigerian Electricity Regulatory Commission ("NERC" or "the Commission") is empowered by the Electricity Act ("EA") to regulate all facets of the electricity supply industry including generation, transmission, system operations, distribution, and trading. One of the core objectives of the Commission as enshrined in Section 27 (d) of the NERC Regulations on the Procedure for Electricity Tariff Reviews 2024 ("RPETR") is *"the Commission shall consider and approve the tariff design that allows for the recovery of costs from each customer category and ensure that the licensee's revenue requirement provides for recovery of prudent costs, including a reasonable return on investment"*. Pursuant to this and other provisions of EA and RPETR, the Commission approved the MYTO Tariff Order for APLE in 2023.

APLE applied for the review of its tariffs under Section 116 of the EA and Section 5 of RPETR, to incorporate changes in macroeconomic parameters and other tariff variables in order to maintain effective business operations. The key highlights of APLE's application include:

- a. Changes to the Nigerian and United States inflation and foreign exchange rates in view of significant movement in these indices which is affecting the quality of service, operations and sustainability of APLE's business.
- b. Changes in increase in Generation cost from N21/kWh to N133.2/kWh to reflect the wholesale cost of APLE's major suppliers Niger Delta Power Holding Company ("NDPHC") and Geometric Power Aba Limited ("GPAL").
- c. A review of the Aggregate Technical Commercial and Collection ("ATC&C") losses applied in tariff determination to 21.26% to reflect operating realities.
- d. Allow APLE to have commensurate return on their investments which include its multibillion naira distribution infrastructure and the bifurcation and rehabilitation of over 400km of 11kv lines.
- e. Commitment to execute capital investment projects that will enable the utility to achieve service delivery targets.
- f. Revision of operating expenses ("OPEX") to improve responsiveness to fault clearing and customer complaints.

## ISSUES FOR CONSIDERATION

Sections 34(d) of the EA and 27(d) of RPETR mandates the Commission to ensure that prices charged by licensees are fair to customers and are sufficient to allow the licensees to fully recover the efficient cost of operation, including a reasonable return on the capital invested in the business. Section 116(2)(c) of the EA further provides for approval of tariffs that incentivise continuous improvement of the quality of service. Pursuant to the aforementioned sections of the EA and RPETR and in line with the subsisting MYTO methodology, the underlisted indices with potential impact on electricity rates are to be considered in deciding on the APLE application:

- a. Nigerian Inflation Rates: The Nigerian rate of inflation for the period under review will be obtained from the National Bureau of Statistics. This rate will be adopted to project Nigerian inflation rates for the year 2024 and beyond.
- b. Exchange Rate: The current Naira to the US Dollar exchange rate will be obtained from the website of the Central Bank of Nigeria ("CBN") plus 1% in line with the MYTO methodology to project the Naira to US Dollar exchange rate.
- c. US Inflation Rates: This data will be obtained from the United States Bureau of Labor Statistics (<http://www.bls.gov>). The current inflation rate will be adopted for this review to project US Inflation rates for the year 2024 and beyond.
- d. Contracted energy offtake: This review will recognise a revision to APLE's partially contracted capacity with GPAL to ensure a minimum energy offtake of 135MWh/h.
- e. Gas Price: The benchmark gas price of US\$2.18/MMBTU, gas transportation cost of US\$0.80/MMBTU, and contracted gas prices outside Domestic Gas Delivery Obligation quantities and based on effective Gas Sale Agreements ("GSAs") approved by the Commission were adopted.
- f. CAPEX Adjustment: Pursuant to the provision of Section 7(a) of Regulations on Procedure for Electricity Tariff Reviews in the NESI, adjustments will be made to APLE's MYTO CAPEX provisions to account for material variances between the actual CAPEX utilisation and MYTO CAPEX provisions in 2023.

## PROPOSED CHANGES

Accordingly, the APLE is considering a review of the below parameters to reflect the level of improvement and make necessary adjustments in the determination of their tariffs:

	Parameter	APLE's Last Approval 2023	Current Request Approval
1	Nigeria Inflation	22.40%	25.00%
2	United States Inflation	3.20%	3.3%
3	Foreign Exchange (₦/\$)	₦770/\$1	₦1654.2/\$1
4	Average Energy Offtake (MWh/h)	120MWh/h	132MWh/h
5	ATC&C Loss Target	34.23%	21.26%
6	Annual OPEX (₦' billion)	0.98	14.23
7	Annual Meter CAPEX (₦' billion)	7.88	4.17
8	Annual Other CAPEX (₦' billion)	6.64	1.146
9	Annual Revenue Requirement (₦' billion)	70.54	227.06
10	Cost-reflective tariff (₦/ kWh)	122	240.8
11	Allowed Tariff (₦/ kWh)	122	240.8
12	Tariff shortfall (₦/ kWh)	0	0

## MAJOR INVESTMENTS BY APLE

APLE has carried out the below major investments to improve service delivery and reliability:

- a. Successfully bifurcated and rehabilitated over 400km of 11kV lines.
- b. Construction of 60 km 33kV line to Nvosi and Isialangwa
- c. Construction of 400km Ukwa 33kV lines
- d. Metering of 560 DSS transformers
- e. Construction of quad circuit 33kV line
- f. Completion of ABB 33kV HV towers
- g. Renovation of 33/11 KV PHCN Aba Control substation
- h. Construction of 33/11 KV Port Harcourt road substation
- i. Completion of Aba Power Project to evacuate 141MW

## RESPONSE TO CONSULTATION

This consultation paper sets out to draw the attention of the industry stakeholders – GenCos, DisCos, large energy users, and other interested parties. Respondents may submit their input in response to the proposal in this document. The submission may include a modification or alternatives to the proposal for further consideration by the Commission.

Pursuant to the review of stakeholders' comments, a public hearing would be held in Abuja in December 2024. Responses are expected no later than 21 days from the date of the publication of this consultation paper.

Upon completion of the consultation process, the Commission's decision shall be incorporated in the MYTO model and accordingly reflected in the subsequent Order. All reactions, comments, queries, and further clarifications should be sent for consideration by the Commission to [tariff@nerc.gov.ng](mailto:tariff@nerc.gov.ng) with copies to:

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