Electricity Market and Regulatory Risk Review

May 2018

Summary

- **The end of Estimated Billing** - A Bill to Amend the EPSR Act of 2005 will (1) proscribe and criminalise Estimated Billing but importantly (2) going forward only customers with pre-paid meters may be billed. The Amendment is proceeding to its 2nd reading in the National Assembly.

  - Estimated Billing has produced "crazy" bills, not least because Nigerian Electricity Regulatory Commission (NERC's) methodology is wrong. If NERC's Estimated Billing Methodology (EBM) is followed, then unmetered customers are billed with total consumption on their feeder after deducting (1) metered consumption and (2) % allowances for technical losses and all theft and commercial losses. The % allowances (and there is some uncertainty whether these are the 10%/18% in the Regulation or the figures in use in Multi Year Tariff Order - MYTO) are now much lower than actual loss levels, meaning the deductions are too small. Consequently, too many kWh are billed to unmetered customers. Bills are grossly inflated - in many cases doubling the Estimated Bills.

  - We estimate the passing of the Amendment Bill as it is drafted will accelerate the sector indebtedness by ₦30bn to the order of ₦65bn per month. This might galvanise FGN to find a way to moderate what the National Assembly is proposing.

  - Proposing a more robust method to bill unmetered customers could help delay the Bill or introduce a transition period.

- **End of the Performance Agreements -** The two principal obligations in Distribution Companies Performance Agreements will come to an end by 31st October 2018; they were not extended when the MYTO was reset. The end date will be moved back to reflect any periods of Force Majeure that have been in force. Bureau of Public Enterprises (BPE) will be able to invoke the Call Option to buy back the Distribution Company at any time up to then for failure to meet the Targets. The Distribution Companies' only defence would be further Notices of FM or to negotiate with BPE for a year's extension, or revised targets, or both.

- **Minor Review? -** Another 6 monthly MYTO Review is due but looks likely not to be undertaken or if done it will not be implemented. This omission would be a Force Majeure Event under the Performance Agreement given the series of review undertaken and not implemented.

- **Power Sector Recovery -** The key plank of the Power Sector Recovery Programme (PSRP) were sector subsidies to fund a slow transition to cost reflective tariffs. Only the 702 ₦ bn bailout fund has been implemented and no other funds have been set aside in the government budget. Tariffs remain static of course.

    - There is an impasse between government and Distribution Companies. On the one hand, FGN will not accept higher tariffs while customers are angry about Estimated Billing and power shortages. On the other hand, Distribution Companies cannot invest in meters and pay for power without higher tariffs.

    - It could take some years for any Distribution Company to achieve the level of performance that would allow government to raise tariffs without public protest. But small parts of a Distribution Company (it might be a particular BU or an individual feeder) might be able to achieve good power delivery and 100% metering (the Meter Asset provider (MAP) Regulation might help with the latter). For these at least cost reflective tariffs could be acceptable and would be a start to break the present impasse.

- **The MAP Regulation** – there are only 2 months remaining to implement the first MAP provider. We understand NERC have shared bid documents with Distribution Companies for comment. We are available to review them if assistance is required.

- **R1 customer candidates for off-grid solutions –** this is one area with potential to boost loss reduction is the removal of R1 customers to be served by off-grid solutions such as Mini-Grids. We can assist with procurement of Mini-Grids for underserved areas.