

INCREASE IN ELECTRICITY TARIFF: IS SERVICE REFLECTIVE TARIFF A PANACEA FOR THE AILING NIGERIAN ELECTRICITY INDUSTRY?

By:
Aganin, Ucheawaji, Esq.*

INTRODUCTION

Electricity is a major catalyst to the economy of any country. As a matter of fact, it is the bedrock of economic development. Nigeria is the largest economy in the Sub-Saharan Africa. Unfortunately, it is yet to live up to its full potential because of the seemingly unending setbacks particularly in its power sector. Presently, Nigeria has an installed electricity generation capacity of about 12,522 megawatts(MW) with actual generation of about 4,000MW.¹ For a country of about 200,963,599 persons,² Nigeria's electricity demand is more than 10 times the actual generation capacity. Besides generation, the installed wheeling capacity of the transmission lines is far lesser than the generation capacity. For instance, out of the installed generation capacity of 12,522MW, the transmission wheeling capacity is 5,300MW. Corollary to the above, the problem with the Nigerian electricity supply industry (NESI) lies majorly with the generation and transmission value chain and it is these areas that require prompt attention.

Sadly, rather than the Federal Government of Nigeria (FGN) focusing on the above areas, it sought to increase end-user tariff. This attempt was greeted with revolt from the populace which eventually led to public hearings comprising of industry players. The result of this drama was the suspension of the plan to increase tariff and the issuance of Nigerian Electricity Regulatory Commission Order on the Capping of Estimated Bills in the Nigerian Electricity Supply Industry (Order No: NERC/197/2020). From the events that unfolded thereafter (Order on the Transition to Cost Reflective Tariffs in the Nigerian Electricity Supply Industry (Order on Cost reflective tariff) – Order No: NERC/198/2020) and (Multi Year Tariff Order (MYTO) 2020 – Order/NERC/207/2020), it has become apparent that the government is hell bent on increasing end-user tariff. The Capping Order was only a bargaining chip for this increase. Simply put, FGN gave Capping Order as *quid pro quo* for MYTO 2020. Now it is pertinent to examine the Order on Cost Reflective Tariff vis-à-vis MYTO 2020 to know how it impacts on the NESI.

COST REFLECTIVE TARIFF

One of the intendment of the draftsmen of the Electric Power Sector Reform Act is the development of a competitive electricity market and it is against this backdrop that FGN developed the power sector recovery plan. The plan envisages four stages of transition culminating in a more competitive, efficient and private sector driven electricity market. The stages are: pre-transition, transition, medium and long term stages. Currently, the industry is in the transition stage and its gradually easing into the medium stage. So, the Order on cost

* BL., LL.B (Uyo). Legal Practitioner, Researcher, Energy and Maritime Law Enthusiast.
ucheawajiaganin@gmail.com. +2347066021808.

¹. See USAID Report on Nigeria power sector. Available at: <https://www.usaid.gov/powerafrica/nigeria>. Accessed on 15/9/2020. Also, Nigerian Electricity Regulatory Commission's (NERC) report on electricity transmission. Available at: <https://nerc.gov.ng/index.php/home/nesi/404-transmission>. Accessed on 15/9/2020.

². 2019 World Bank data on the population of Nigeria. Available at: <https://data.worldbank.org/indicator/SP.POP.TOTL?end=2019&locations=NG&start=1960>

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reflective tariff is transitional to allow licensees that operate efficiently recover the full costs of their business activities, including a reasonable return on the capital invested in the business. The rationale for cost reflective tariff is to ensure that an adequate supply of electricity is available to consumers and that the prices charged by licensees are fair to consumers and are sufficient to allow licensees finance their activities. That is, the transition to cost reflective tariff is anchored on guaranteed hours of service delivery, quality of power supplied, and adequate metering of customers.

OVERVIEW OF MYTO 2020

There are three types of MYTO reviews: the major, the minor and the extraordinary. The major review is carried out every five years, a minor review is a bi-annual adjustment, while an extraordinary review can be made at any time based on any or all of the following grounds: revenue requirement, tariff design or generation tariff. All these reviews are on the application of licensees subject to public hearing. MYTO 2020 is an extraordinary review of MYTO 2015 and it is born out of series of public consultations in February/March 2020 between DISCOS and their customers, and also public hearing before NERC. NERC, pursuant to the Electric Power Reform Act, MYTO Methodology (Amended), and Regulation on Procedure for Electricity Tariff Review in the NESI is vested with the powers to review tariffs bearing in mind variables which include chiefly:

1. Rate of inflation;
2. Foreign exchange rates;
3. Cost of fuel (Gas price); and
4. Actual available generation capacity

Quite alright, NERC wonderfully considered variables No. 1-3 above because obviously inflation rate is higher (currently 12.82%)³, foreign exchange rate (NGN-USD) is higher (380₦ – 1\$ by CBN official exchange rates) and the cost of gas is higher⁴ hence, the need for the review of tariff to enable licensees make reasonable returns on their investment in the NESI. Sadly, NERC made no recourse to variable No. 4 (actual available generation capacity). In MYTO 2020, end-users as shown in the table below have been reclassified based on service bands as follows:

Service Bands	New Tariff Class	Old Tariff Class
Lifeline	R1	R1
A (minimum of 20hrs/day)	A – Non-MD A – MD 1 A – MD 2	R2, C1, D1, A1 (single and three phase) R3, C2, D2, A2 Street Light R4, C3, D3, A3
B (minimum of 16hrs/day)	B – Non-MD B – MD 1 B – MD 2	R2, C1, D1, A1 (single and three phase) R3, C2, D2, A2 Street Light R4, C3, D3, A3
C (minimum of 12hrs/day)	C – Non-MD C – MD 1 C – MD 2	R2, C1, D1, A1 (single and three phase) R3, C2, D2, A2 Street Light R4, C3, D3, A3
D (minimum of 8hrs/day)	D – Non-MD D – MD 1 D – MD 2	R2, C1, D1, A1 (single and three phase) R3, C2, D2, A2 Street Light R4, C3, D3, A3
E (minimum of 4hrs/day)	E – Non-MD E – MD 1 E – MD 2	R2, C1, D1, A1 (single and three phase) R3, C2, D2, A2 Street Light R4, C3, D3, A3

Table retrieved from MYTO 2020⁵

³ July 2020 statistic from the National Bureau of Statistics.

⁴ The price of natural gas for the power sector has been regulated since the MYTO 2008. It is on this basis that NERC still maintains the price of US\$2.50/MMBTU.

⁵ The MYTO 2020 for each of the eleven DISCO's are available at

<https://nerc.gov.ng/index.php/library/documents/MYTO-2020/>. Accessed on 15/9/2020.

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From the table above, it is manifest that the MYTO 2020 gives life to the Order on cost reflective tariff seeing that it is anchored on guaranteed hours of service delivery. There are five service bands (A-E) with guaranteed minimum daily supply of 20hrs, 16hrs, 12hrs, 8hrs, and 4hrs respectively. The service bands are divided into the following tariff classes:

1. Non-Maximum Demand (Non-MD),
2. Low voltage Maximum Demand (MD 1),
3. Medium/High voltage Maximum Demand (MD 2), and
4. Lifeline tariff class (R 1) for consumption of not more 50kWh per month.

Although the service bands and tariff classifications are uniformed nationwide, the eleven DISCOS have different tariff rate for their customers. But for the purpose of this paper, reference will only be made to the tariff of Port Harcourt Electricity Distribution PLC (PHED) and Eko Electricity Distribution PLC (EKEDC). For customers within PHED's franchise areas the applicable tariff from September 1, 2020 is as shown in the first table below, while for customers within EKEDC's franchise areas the applicable tariff from September 1, 2020 is as shown in the second table below.

Table – 3A: Approved End-user Tariffs (₦/kWh) for PHED

Tariff Class	Sep – Dec 2020	Jan – Jun 2021	Jul – Dec 2021	Jan – Dec 2022	Jan – Dec 2023	Jan – Dec 2024	Jan – Dec 2025
Life-line (R1)	4.00	4.00	4.00	4.00	4.00	4.00	4.00
A - Non MD	55.20	55.20	68.23	68.09	68.00	66.36	64.86
A - MD1	54.80	54.80	67.78	67.64	67.55	65.92	64.43
A - MD2	52.20	52.20	64.55	64.42	64.33	62.78	61.36
B - Non MD	54.80	54.80	67.78	67.64	67.55	65.92	64.43
B - MD1	52.20	52.20	64.55	64.42	64.33	62.78	61.36
B - MD2	51.70	51.70	63.94	63.81	63.73	62.19	60.79
C - Non MD	51.70	51.70	63.94	63.81	63.73	62.19	60.79
C - MD1	49.20	49.20	60.90	60.77	60.69	59.23	57.89
C - MD2	49.20	49.20	60.90	60.77	60.69	59.23	57.89
D - Non MD	45.90	45.90	56.83	56.71	56.64	55.27	54.02
D - MD1	48.60	48.60	60.16	60.04	59.96	58.52	57.20
D - MD2	48.60	48.60	60.16	60.04	59.96	58.52	57.20
E - Non MD	43.60	43.60	53.96	53.85	53.78	52.48	51.30
E - MD1	47.60	47.60	58.92	58.80	58.73	57.31	56.02
E - MD2	47.60	47.60	58.92	58.80	58.73	57.31	56.02

Table – 3A: Approved End-user Tariffs (₦/kWh) for EKEDC

Tariff Class	Sep – Dec 2020	Jan – Jun 2021	Jul – Dec 2021	Jan – Dec 2022	Jan – Dec 2023	Jan – Dec 2024	Jan – Dec 2025
Life-line (R1)	4.00	4.00	4.00	4.00	4.00	4.00	4.00
A - Non MD	54.08	54.08	56.42	57.25	53.08	52.06	52.03
A - MD1	56.94	56.94	59.40	60.28	58.43	57.31	57.27
A - MD2	56.94	56.94	59.40	60.28	60.73	59.57	59.53
B - Non MD	49.81	49.81	52.11	52.74	53.56	52.53	52.50
B - MD1	52.81	52.81	55.93	55.91	56.69	55.60	55.57
B - MD2	52.81	52.81	55.93	55.91	56.78	55.70	55.66
C - Non MD	43.01	43.01	47.83	45.42	46.25	45.36	45.33
C - MD1	52.69	52.69	55.80	54.69	50.63	49.66	49.63
C - MD2	52.69	52.69	55.80	54.69	56.66	55.57	55.54
D - Non MD	40.82	40.82	43.23	43.22	43.89	43.05	43.02
D - MD1	47.77	47.77	50.88	49.52	48.72	47.79	47.76
D - MD2	47.77	47.77	50.88	49.52	50.29	49.33	49.29
E - Non MD	36.15	36.15	38.29	38.28	38.49	37.75	37.73
E - MD1	39.63	39.63	41.81	41.80	41.65	40.85	40.83
E - MD2	39.63	39.63	41.81	41.80	42.04	41.24	41.21

Tables retrieved from MYTO 2020 for PHED and EKEDC.⁶

The above tariff will be applicable to end-use customers pending the issuance of another MYTO. The good news for customers in band D and E is that the new tariff is not applicable to them. That is, there is a deferment/freezing of MYTO 2020 for this category of customers and the rationale is because of the commitment of minimum of 8hrs/day and 4hrs/day of supply. So, pending when DISCOS will improve their service for these category of customers and migrate them to a higher service band, the old tariff rate will still be applicable to them. In other words, for customers in band D and E, it is the old tariff that will be applicable to them. Also,

⁶. The MYTO 2020 for each of the eleven DISCO's are available at <https://nerc.gov.ng/index.php/library/documents/MYTO-2020/>. Accessed on 15/9/2020.

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unmetered customers in bands A, B and C are not affected by MYTO 2020. That is, they are protected by the Order on the Capping of Estimated Bills in the Nigerian Electricity Supply Industry (Order No: NERC/197/2020). The essence is to encourage accelerated metering of all customers in the NESI.

IS MYTO 2020 A PANACEA FOR THE NESI?

Similar to the drama of tariff increase in the NESI was the drama of increase in value added tax (VAT) from 5% to 7.5%. Then, it was argued by most jurists which I concurred that rather than increase the VAT, FGN should seek to increase the tax base. In the NESI, all the government need in order to increase revenue or to enable DISCOS meet their minimum remittances is: increase generation capacity, increase wheeling capacity and most importantly ensure that customers are fully metered or at least 80% to 90% metered. Because beyond the problem of insufficiency in generation and wheeling capacity is the cancer of unaccountability/energy theft in the NESI and until these issues are addressed the NESI will continue to witness stunted growth.

Also, worthy of note is the fact that DISCOS are third in the value chain. There are GENCOs, TCN before the DISCOS. As earlier stated above the generation capacity is insufficient to meet the energy need of the country and worst of all, from the very insignificant quantum of energy generated, TCN lacks the capacity to wheel same to the DISCOS. Mind you, in reviewing MYTO 2015, NERC as part of the variables it considered did not consider the “actual generation capacity” and this can only be interpreted to mean that there is no improvement in that area. Therefore, although the guaranteed minimum electricity supply in MYTO 2020 raises an eye brow, as argued in the conclusion below, MYTO 2020 is a part of the remedy to the ailment in the NESI.

CONCLUSION

Indeed, there is dire need for the government to address the problems of generation, transmission wheeling capacity and energy accountability in the NESI, until these problems are addressed, the NESI will not witness any real growth. Although MYTO 2020 is not a complete remedy for the ailment in the NESI, one cannot turn a blind eye to the fact that the guaranteed hours of daily supply will be a major boost to businesses and the economy in general. The implication of the guaranteed supply is that, customers will enjoy quality service much more than they did prior to MYTO 2020, DISCOS will be able to make reasonable returns on their investment in the NESI to enable them meet their minimum remittances to FGN, and in return FGN can invest more in the NESI in order to increase the generation and wheeling capacity of the NESI. We can only hope that the DISCOS can successfully wheel its guaranteed minimum supply to end-use customers.



ucheawajiaganin@gmail.com