



Rate Making procedure in the Nigerian Electricity Supply Industry (NESI)

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Outline

- What is MYTO?
- Reviews of tariff
- Procedures for Minor Review
- Procedures for Major Review
- Application for extraordinary tariff review
- Open Book Tariff Review
- Review of ATCC losses
- Tariff Classification



What is MYTO?

- i. A unified way to determine total industry revenue requirement
- ii. Provides a 15-year look ahead for tariff in the sector due to long gestation period required for investors to recoup investment
- iii. MYTO is used to set wholesale and retail prices in the NESI
- iv. Enables recovery of costs and allows reasonable profits, i.e., the revenue requirement

Reviews of the tariff

Minor
reviews (Bi
annual)

Inflation

Gas price

Exchange
rate

Generation
Capacity

Major
reviews (5
yrs)

Capital
Expenditure

Operating
Expenditure

Revenue collection
efficiencies
Expansion of the
transmission and
distribution
networks

Weighted average
cost of capital
(WACC), etc

Reviews of the tariff

- Minor review semi annually
- Major review every five years
- Open Book tariff Review – To be done at the instance of an operator.
- Extraordinary Tariff Review

Rate review regulation

- The Rate Review Regulation provides detailed procedures to be followed in conducting tariff reviews in line with the Act and the MYTO Methodology.
- The regulation gives a detailed analysis of the responsibilities of tariff review applicants, timelines, costs, submission requirements and guidelines to be followed when applying for a rate review.

PROCEDURES FOR MINOR REVIEW OF TARIFF

- Notice of Intention to Commence a Minor Review of Tariff
- Review of Submissions /Relevant Data, and Public Consultation
- Approval of the Tariff Order after a Minor Review

Procedures for major review of tariff

- Notice of Intention to Commence Major Review of Tariff
- Review of Submissions and the development of the Consultation Paper
- Approval of the Tariff Order after a Major Review

APPLICATION FOR EXTRAORDINARY TARIFF REVIEW

Eligibility and Form of Application

- (a) These Regulations shall not be applicable to the reviews provided for in the Multi Year Tariff Order (MYTO), namely Major Reviews, Minor Reviews, and Open Book Tariff Setting.
- (b) These Regulations shall only be applicable to
- Licensees whose proposed additional investments into their facilities or networks have not been factored in their existing approved tariff, including emergency expansions, and replacements
- Licensees requesting review in line with section 6.3 of the MYTO methodology
- Licensees who have encountered significant unforeseen operational, legal or regulatory costs which can be reasonably passed on to consumers.

APPLICATION FOR EXTRAORDINARYTARIFFREVIEW

- Supporting Documentation
- Filing Fees
- Acknowledgement of an Application
- Notice of the Application
- Request to Participate
- Circularization of Comments
- Composition of the Hearing Panel
- Hearing of the Application
- Decision of the Commission

OPEN-BOOK TARIFF SETTING

Submission of an Application

- (a) An applicant for a generation licence may request for a tariff which is higher than the approved tariff as stated in the MYTO in force at the time as provided by section 5 of the MYTO methodology (as amended)
- (b) The applicant shall submit such a request with its application for a generation licence.
- (c) The request shall be accompanied by the Power Purchase Agreement (PPA), Fuel Supply Agreement (FSA), Equipment Planning and Construction contract (EPC) and the Operations & Maintenance (O&M) Agreement and all information and documents enumerated in schedule 2 of the rate review Regulation.

OPEN-BOOK TARIFF SETTING

Review of the Application

- (a) The Commission shall review the submissions and take a decision on whether to approve the requested tariff, or any tariff as determined appropriate by the Commission.
- (b) The Commission shall cause the applicant to issue a Notice, in two (2) national newspapers and on the official website of the Commission, of its request for an open-book tariff review.
- (c) Comments from the public must be submitted to the Commission within two (2) weeks after the publication of the notice, and all must be considered by the Commission prior to taking a decision.
- (d) A Stakeholders workshop shall be convened for consultation with the public following the approval of the Commission within One (1) month from the date of the publication.

OPEN-BOOK TARIFF SETTING

- **Decision of the Application**
- The comments obtained from the workshop shall be collated, adjustments made to the requested tariff, if any, and the recommended tariff submitted to the Commission for approval.
- The recommended tariff shall be approved by the Commission within ten (10) days from the date of the workshop, and published on the Commission's official website, and also sent to all licensees by mail, courier or electronic mail.

Review of the ATCC Losses- Baseline Revalidation ?

- Both NERC and BPE recognise the uncertainty and the credibility of some of the data from which aggregate losses were calculated and
- Commitments on the reduction of aggregate losses was one of the primary determinants for determining successful Disco core investors;
- Section 5.3 of the 2012 tariff order provides for revalidation of these baselines
- At the conclusion of the validation exercise, any difference in losses will be the subject of separate reduction targets to be agreed between NERC and the relevant Discos; and commensurate cost implications will be the subject of a Minor Review consultative process.

Why Baseline Revalidation?

- In line with Section 5.3 of the Distribution and Retail Tariff Order the Commission developed TOR for the engagement of consultants by the 11 discos to carryout ATC&C baseline losses and customer number study.
- In the same vein, the Commission developed a TOR for the engagement of a consultant for the Commission to guide the consultants of the discos in the ATC&C review and to validate the level of accuracy of the final reports by the discos.

Outcome of ATC&C studies

- Discos submitted reports to the Commission
- Teams visited each of the 10 DISCOs for verification
- Sources of data for the review includes:
 - Bank statements
 - Management Information System (MIS) reports
 - Samples of invoices

Direction of Average Tariff After ATC&C Validation

	Before validation N/KWh	After Validation N/KWh
Abuja- 2013	20.45	37.93
Abuja - 2014	23.27	31.72
Jos - 2013	21.63	44.07
Jos - 2014	24.90	43.13

Revenue Shortfall

- Revenue shortfall arose due to the difference between the old 2013 average tariff with revalidated tariff or the difference between tariff with wrong baseline losses with validated data.
- Calculate the actual shortfall by multiplying the difference by number of KWh delivered to the disco over the period November 2013 to November 2014.

Revenue Shortfall

- If we must recover the short fall from consumers immediately it will create;
 - Rate shock
 - Inflation
 - Unplanned cost on businesses
 - Hard ship on residential consumers
 - Negative reaction from society due to low power availability

Revenue Shortfall

- Revenue shortfall to be covered not at once by Discos and not directly from consumers, but
- Through CBN intervention.
- Soft loan to Discos by CBN through Commercial Banks
- CBN to recover its intervention of shortfall over 10 years.
- One year moratorium to be granted to the Discos.
- 11% of the money to be paid annually after the moratorium of one year.

Tariff classes under the 2012 Tariff Order

Customer Classification	Description	Remarks
Residential		A consumer who uses his premises exclusively as a residence- house, flat or multi- storeyed house
R1	Life-Line (50 kWh)	
R2	Single and 3-phase	
R3	LV Maximum Demand	
R4	HV Maximum Demand (11/33 KV)	
Commercial		A consumer who uses his premises for any purpose other than exclusively as a residence or as a factory for manufacturing goods.
C1	Single and 3-phase	
C2	LV Maximum Demand	
C3	HV Maximum Demand(11/33 KV)	
Industrial		A consumer who uses his premises for manufacturing goods including welding and ironmongery
D1	Single and 3-phase	
D2	LV Maximum Demand	
D3	HV maximum Demand (11/33 KV)	
Special		Customers such as agriculture and agro-allied industries , water boards, religious houses, government and teaching hospitals, government research institutes and educational establishments.
A1	Single and 3 Phase	
A2	LV Maximum Demand	
A3	HV Maximum Demand (11/33 KV)	
Street Lighting		
S1	Single and 3-phase	

Rate elements in the NESI

- **Energy Charge (N/KWh):** This rate element is for the volume of usage by a customer. Determined by the cost of gas/fuel included when power is produced. Expressed in kw/h consumed
- **Fixed Charge (N/Month):** Is intended to recover costs such as maintenance costs which all electricity consumers bear regardless of their consumption. Those costs incurred even if power is not produced or services not provided include administrative and other shared costs



**THANK
YOU**