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Power Sector Q2 Updates

June 2024 | KPMG in Nigeria

US$500M Loan Approved for Metering Access Improvement[1]

The Nigerian Senate recently approved a US$500 million loan request by His Excellency, President Bola Ahmed Tinubu (GCFR) for the metering of electricity consumers in Nigeria in line with the Nigeria Distribution Sector Recovery Program (DISREP). The loan will be utilised to improve metering infrastructure in order to enhance revenue collection, efficiency, and service delivery standards in the Nigerian Electricity Supply Industry (NESI), as part of measure to address financial and technical challenges faced by the electricity Distribution Companies (DisCos).

Only 5,842,726 (44.39%) out of the 13,162,572 registered electricity customers are metered as at 31 December 2023[2], according to the report issued by the Nigerian Electricity Regulatory Commission (NERC) for the fourth quarter of 2023. DisCos have continued to rely on estimated billings to recover revenue from unmetered customers.

The metering of electricity consumers has been one of the key challenges facing the NESI since the privatisation of the sector in 2005. There have been several Federal Government (FG) initiatives to address the metering gap, such as the Meter Asset Provider and National Mass Metering Programme, but the problem continues to persist. NERC has therefore, also taken a significant step towards deregulating meter access in Nigeria to allow customers to procure meters from Meter Asset Providers (MAPs) based on competitive open market prices determined through transparent bidding frameworks.

The desired loan programme is expected to complement NERC's initiative in addressing the metering challenges in the sector.

NERC Unbundles TCN into two Independent Operators[3]

The NERC (or "the Commission) has officially unbundled the Transmission Company of Nigeria (TCN) into two entities namely the Nigerian Independent System Operator Nigeria Limited (NISO) and the Transmission Service Provider (TSP), in line with the provisions of the Electricity Act, 2023.

The unbundling was communicated by NERC via *Order No: NERC/20204/45* dated 30 April 2024 which was jointly signed by the Chairman and Vice Chairman of the NERC. Based on the Order, the TCN will transfer all market and system operation responsibilities to the newly formed NISO.

Paragraph 10B of the Order, provides for the TCN to conclude the identification and mapping of the assets and liabilities for the system/ market operation portion of its business and forward same to the Commission and the Bureau of Public Enterprise PE not later than 30 June 2024.

You would recall that Section 15 of the Electricity Act, 2023 requires the TCN to incorporate an Independent System Operator (ISO) to take-over the administration of the market and system operation functions while retaining only the transmission license.

The recent development is in line with one of the objectives of the Electricity Act, 2023 which is to reform the Power sector by providing a clear guide and legal basis for a phase-wide development of the NESI. The unbundling of the TCN's transmission and system/ market operation functions to improve efficiency and effectiveness is a key part towards achieving a robust and self-sustaining NESI. This is expected to help unlock the potentials in the transmission value chain and attract the investments required to revamp the subsector.

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1 senate-approves-tinubus-500mn-loan-request-for-mass-metering (icirnigeria.org)
2 Page 62 of the NERC 2023_Q4_Report_Final-1.pdf
3 NERC unbundles TCN into two operating entities (icirnigeria.org)

NERC approves 8.1% Electricity Tariff Cut for Band A Customers for All Discos

The NERC recently approved an 8.1% reduction in electricity tariff rates for customers in the Band A category across all power distribution companies (DisCos) in the country. The decision was communicated via *Order/NERC/2024/55* issued by the Commission. The Supplementary Order, which takes effect from 6 May 2024, is based on the review of the changes in the minor indices impacting the tariff such as exchange rates, inflation rates, available generation capacity wholesale gas to power prices, and ancillary services.

The tariff cut from ₦225/kWh to ₦206.8/kWh only applies to Band A customers. The tariffs for Bands B to E customers remain unchanged.

Earlier in the year, the NERC had revised the Multi-Year Tariff Order to increase the tariffs for the various Band A customers from between ₦69.88 - ₦72.67/kWh to ₦225/kWh with a guaranteed 20 hours supply of electricity.

States take Charge of Electricity Business with NERC's Support[4]

Some States across the Federation have implemented procedures to take control of the regulatory oversight of the electricity business in their respective territory with the support of the NERC. This has led to the transfer of regulatory oversight of the Enugu and Ekiti electricity markets to the Enugu Electricity Regulatory Commission (EERC) and Ekiti State Electricity Regulatory Bureau (EERB), respectively, by the NERC. The transfers, which were effective from 1 May 2024, mark the first time that the NERC has delegated such authority to a State-owned regulatory body.

The details of the devolution of regulatory powers were contained in the Orders released by NERC dated 22 April 2024 to the respective State-owned Regulators. One of the key requirements contained in the Orders was the directive for the relevant DisCos with power distribution licences which covers the States to incorporate subsidiaries to assume the responsibilities for intra-state supply and distribution of electricity. The subsidiaries would thereafter apply and obtain operating licences from the State Regulators. Further, the affected DisCos are required to identify the geographic boundaries of the relevant States, carve out their networks in the States as standalone networks, and install boundary meters at the borders accordingly, amongst other requirements.

The States' control results from the recently enacted Electricity Act, 2023 and Electricity (Amendment) Act, 2024. It will be recalled that Paragraph 14(b) Part II of the Second Schedule to the 1999 Constitution was recently amended to empower State Governments to legislate on electricity supply within their territories, effectively ending the Federal Government's sole jurisdiction over this area.

Nigeria's Power Sector to Benefit from AfDB's US$1bn fund[5]

The African Development Bank (AfDB) has disclosed plans to invest a significant portion of its US$1 billion policy-based operation fund in Nigeria's power sector.

According to the Vice President of Power, Energy, and Climate Change at the AfDB, Kevin Kariuki, during the 8th Edition of the Africa Energy Market Place, held in Abuja, the fund will be utilised to address some of the key challenges facing the Nigerian power sector, including electricity access deficit as well as rehabilitation and upgrading of Nigeria's power infrastructure to meet a load of 20 gigawatts(GW) which is believed to be the true energy demand of the Nigerian population. He further noted that the bank was financing a study for the TCN to explore the deployment of battery energy storage systems to enhance grid stability and facilitate greater uptake of renewable energy generation.

The utilisation of the loan is expected to take a multi-prong approach that will include providing support to robust policy development, financing critical power sector infrastructure, and providing technical assistance and capacity building to ensure a viable and sustainable Nigerian power sector.

[4] States take charge of electricity business with NERC's support (icirnigeria.org)
[5] Nigeria's power sector to benefit 'significantly' from AfDB's $1bn (icirnigeria.org)

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