



Oluwaseun Amoda

Markets and Tariffs Consultant

seun.amoda@niafng.org



Kenny Anuwe

Senior Consultant

Kenny.anuwe@niafng.org

A Credible Tariff Framework for the Nigeria Electricity Supply Industry

Executive Summary

- NIAF was the principal technical partner of the Nigerian Electricity Regulatory Commission (NERC) in developing a new tariff framework that conforms with the new policy directives and regulatory path of the current political administration
- The Multi Year Tariff Order (MYTO) Framework needed to be updated, based on newly developed guidelines. This process required significant interactions with the Discos, Gencos, Transmission Company of Nigeria (TCN) and other Industry stakeholders. NIAF provided critical support in managing this multi-faceted challenge and also provided leadership and technical support throughout the project's lifecycle
- NIAF worked closely with NERC in developing guidelines for tariff submission and the development of the final model
- The new MYTO model (2.3) developed with the help of NIAF has been used by NERC to produce 11 Distribution orders and 1 TCN order. The new tariff is designed to protect low-income energy consumers from rate-shock. The R1 lifeline tariff caps the total monthly amount charged.



The Challenges

- In April 2015, collection losses were removed from the MYTO 2.1 (developed for NERC by NIAF to as basis of tariff from January 1, 2015) framework, causing negative repercussions in the market
- Tariffs became artificially depressed and as a result, the tariff regime became non-cost reflective. The Discos threatened to declare force majeure because the act of removing collection losses threatened their solvency

- After extensive consultation with stakeholders (instigated by a change in political administration), NERC decided to reconsider the removal of collection loss and use the opportunity to update the MYTO framework to further accommodate current operational and financial realities.

The NIAF Approach

- NIAF engaged a team (both local and international consultants) to provide direct support to NERC and worked with them to understand requirements and develop a work-plan for the exercise.
- Championing the capacity building element of NIAF technical assistance, NIAF advisers trained the NERC team on how to use and amend the MYTO model. As a result, the NERC team was able to make adjustments to the model independently, although the NIAF team was on hand to offer technical support and provide quality assurance.
- Success in this project was largely contingent on the excellent relationship NIAF fostered with NERC over time through the use of semi-embedded consultants. NERC's trust in the NIAF approach was critical in the productive synergy between the NIAF and NERC teams.
- NERC valued NIAF support and implemented most of the NIAF technical advice. Critically, NIAF's pro-poor focus to its market development advice ensured the R1 'lifeline' was safeguarded in this tariff revision.
- The leadership of NIAF was very instrumental in helping overcome major relationship/ideological obstacles at various stages of the project, by using its extensive relationship network to ameliorate issues and re-assure trust.

The Outcomes

- Guidelines for Discos to submit their tariffs were developed collaboratively between the NERC and NIAF teams. This was a novel approach in the Nigeria Electricity Supply Industry, as it is the first time Discos were given freedom to design their tariffs. Although a number of constraints were imposed that limited the creativity of Discos, the final tariffs submitted by the Discos were designed by the Discos themselves, inviting DisCo "ownership" to the process.
- The NIAF team updated the MYTO 2.1 tariff model to support the following requirements of the guidelines:
 - Pre-determined Discos tariff structures were removed to allow the Discos determine their own structures.
 - All the tariff pages were meticulously (while maintaining the integrity of the model) restructured to accommodate a 10 years tariff path as specified in the guidelines.
 - The TCN tariff structure was broken into three components (TSP, ISO and Ancillary Services) to better align the model to existing market structures.
- NIAF supported the NERC team by providing a framework for the review of tariff submissions and timely feedback to the Discos. A standardized template for the 11 different structures was developed for quick access and analysis.
- NIAF support assisted in simplifying a potentially unwieldy and complex exercise into a clear process which enabled the analysis and assessment of tariff proposals under tight timeframes, allowing the Commission to publish the Order enshrining the new tariff before year end.
- Following the implementation of the new tariff, approx. 230,000 low income electricity consumers continue to receive power at the affordable rate of Naira 4/KwH- a critical factor in the alleviation of urban poverty.