HIGHPOINTS OF NERC ORDER ON THE TRANSITION TO COST REFLECTIVE TARIFF IN THE NESI

INTRODUCTION

On the 31st March 2020, NERC issued the Order on the Transition to Cost Reflective Tariffs in the Nigerian Electricity Supply Industry ("NESI") (the "Order"), which became effective from 1st April 2020. The Order was issued in response to applications for extraordinary tariff review filed by the DisCos and public hearings with stakeholders and sets out a framework and preparatory steps for transitioning into full cost reflectivity in the NESI.

The public hearings reaffirmed the urgent need for improved investment by the DisCos and TCN to reinforce the distribution and transmission networks and the need for adequate metering of end-use customers, to ensure more reliable power is supplied to the customers, as they are willing to pay appropriate electricity rates to DisCos once assured of guaranteed hours of supply.

In addition, the Order considered the impact of the current COVID-19 on activities within the NESI, particularly its effect on the ability of Meter Assets Providers to supply meters to customers.

HIGHPOINTS OF THE ORDER

The Order suspended the planned tariff Increase scheduled for April 1st 2020.

All DisCos are required to submit revised performance improvement plans to NERC no later than 21st April 2020.

DisCos are required to categorize their franchise areas by quality of service, and this will define the tariff payable by customers. In other words, service quality determines tariff.

All DisCos are directed to provide smart meters at 11KV and 33KV feeder levels with capability of sending real time or near real time data to NERC

FGN to provide tariff support to DisCos during the transitional period to full revenue recovery.

DisCos are expected to raise finance for investments required to improve services, given FGN's commitment to resolve tariff related constraints on DisCos' financial records.

CONCLUSION

The Order contains timely provisions that provide win-win opportunities for both the DisCos and the end-use customers. The provisions on adequate metering obligations, service reflective arrangements and engaging in strategic investments for enhancement of service, would ensure that customers are well serviced and get value for money, while also ensuring the DisCos experience improved revenue collection.

If effectively executed, the Order would generally result in service improvement and market-wide liquidity within the NESI.

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