

# **CONSULTATION PAPER FOR TARIFF REVIEW**

**BY**

**ENUGU ELECTRICITY DISTRIBUTION PLC**

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**RESPONSES TO THIS  
CONSULTATION PAPER ARE DUE BY 10<sup>TH</sup> JULY, 2015**

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## 1. INTRODUCTION

### ***Why do the prices need to be reviewed again?***

- 1.1 Electricity is similar to any other manufactured product. However, because of its peculiar nature, it is instantaneously supplied and consumed. As a product, the price paid by consumers must be sufficient to at least cover the cost of production otherwise supply will be in jeopardy.
- 1.2 In the past, electricity prices have been lower than the costs of running the electricity business. This is why not enough money has been available for improving power supply. We have all suffered.
- 1.3 The tariffs in the past were supposed to cover costs, but they did not cover all the cost of losses. These losses are partly because of the technical challenges in the network, but mainly because of people stealing electricity or not paying bills, and also errors in the information we have about our customers.
- 1.4 We made promises to make things better when we took over the Company. In return, we were promised that the prices we charge for electricity will cover all our costs.
- 1.5 At the moment, our prices do not cover all our costs. This means that we have no money left over to invest in the business. It also means that we cannot pay the generation companies (Gencos) all the money they are owed to supply more electricity.
- 1.6 Tariffs are being reviewed again because the current tariffs are not sufficient to pay the Gencos, TCN, service providers and the Discos. As a result, everybody is suffering. We need to make sure the tariff is reviewed to a level that can work for all of us.
- 1.7 We want to ensure that all our customers in Abia, Anambra, Ebonyi, Enugu and Imo State are carried along in the review process so that everyone will understand why they have to pay the prices that will be announced after the process.
- 1.8 The tariff review process requires that we have meaningful interactions with our customers and stakeholders. We will listen to all your comments and explain the process to you in more details. It is our hope that we can all work together to move the industry forward – more electricity for customers, faster fault clearing, more meters and accurate bills.

## ***When will I get more electricity?***

- 1.9 EEDC does not generate electricity, we only distribute it. We are supplied electricity from Gencos which are independently owned. Our supplies are delivered to us through the National Grid, which is owned by Transmission Company of Nigeria (TCN) for final distribution to our customers' homes, offices, schools, business locations etc. Gencos, TCN and service providers do not relate directly with customers, and so have to rely on us to collect their money from you and send to them. Consequently, a large part of the money we collect from you as tariffs are sent back to Gencos, TCN and service providers. By making sure we pay their bills, we hope they can fix old plants and give us more electricity. Moreover, if the Gencos get paid, more people will go into generation business and generate more electricity.
- 1.10 More electricity is important for all of us. A lot of our costs do not depend on how much we supply. This means that if we get more electricity and collect more money from people who do not pay at the moment, we will be able to reduce our prices.
- 1.11 Even if the Gencos generate a lot more power, we still need to have a good National Grid to evacuate the power from the Gencos and bring it to us so that we can deliver it to you. However, because TCN is not getting paid fully for what they are delivering to us to give you now, they will not have money to repair and expand the National Grid to bring more electricity.
- 1.12 EEDC is trying to get some people to come and generate electricity directly to us without going through TCN's National Grid. But the price that they want to sell it to us is more than the price that we are currently selling it to you. We need a tariff review to be able to sign the contract for them to generate directly for us to sell to you.

## ***Does that mean electricity prices are going up now?***

- 1.13 We do not set our tariffs on our own. We are regulated by the Nigerian Electricity Regulatory Commission (NERC). But we have come up with principles on how we will set prices that will be fair to our customers, and NERC will decide whether the tariff we are asking for is fair to all our customers. To make sure we get this right, we want to hear what you think.

1.14 We cannot say if prices will go up or down until we complete the process with you, and see what NERC approves. We suspect that it will vary with each tariff class. A lot will depend on how many customers are in each tariff class, how much of the total energy they consume and other statistical and scientific factors. We may even create a new tariff class if that is what it takes to ensure fairness to customers.

***Might prices change again after this review?***

1.15 Yes. There will be a major review by 2020. There will also be two minor reviews every year. Minor Reviews consider macro-economic changes over which we have no control, like gas prices, inflation, exchange rates and the level of electricity generation.

***We welcome your views on our plans.***

***Please read this consultation document and let us know what you think.***

***Please give us your comments before 20th July, 2015.***

## 2. BACKGROUND

2.1 The electricity industry in Nigeria is regulated by NERC, a body established by the EPSR Act, 2005, and charged with responsibility for regulating the tariff paid by electricity consumers. Under section 32(1)(d) of the Act, NERC has a responsibility to regulate tariffs in such a manner as to:

***ensure that the prices charged by licensees are fair to consumers and are sufficient to allow the licensees to finance their activities and to allow for reasonable earnings for efficient operation.***

2.2 NERC regulates tariffs through a tariff methodology known as the Multi-Year Tariff Order (MYTO), a 15 year tariff path that undergoes major reviews every five years, and two minor reviews every year (usually in June and December).

2.3 The tariffs in the past were supposed to cover the costs of running the electricity business. However, they did not cover all the cost of losses that arise partly because of the old equipment in the network, but mainly because of people stealing electricity or not paying bills, and also errors in the information we have about our customers. This aggregation of losses is commonly called the Aggregate Technical, Commercial and Collection (ATC&C) loss.

2.4 This is why not enough money has been available for spending on improving power supply.

2.5 When we took over EEDC, we signed a Performance Agreement with the Federal Government wherein we undertook to make things better. In return for our obligations, the Federal Government promised that the prices we charge our customers for electricity will cover all our costs, in line with the EPSR Act.

2.6 However, because the tariffs do not cover all our costs at the moment, we have no money left over to spend on meeting our obligations in the Performance Agreement. It also means that we cannot pay the Gencos, TCN and service providers all the money that is needed to sustain the electricity supply industry.

- 2.7 In line with NERC's Tariff Review Guidelines, we have come up with principles on how the prices to be paid by our customers could be set in a fair and transparent manner. We have articulated a tariff under which EEDC will under-recover its revenue requirement for a while, and to make up the deficit later. In this way, we hope to avoid price spikes.
- 2.8 NERC has the responsibility to decide whether what we have proposed is fair for all our customers.
- 2.9 Because of the unsettling developments in the electricity industry since the beginning of 2015, NERC has agreed with the Discos that a new tariff review is required. It is hoped that the exercise will produce a credible and cost reflective tariff that will restore confidence in the market, and all stakeholders.
- 2.10 ***To ensure that we get this right, we want to hear what you think. We are starting our tariff review by consulting with all relevant stakeholders. This Consultation Paper is designed to give you the information you need to understand the principles we will follow in reviewing our prices and to comment on our approach.***

### 3. INDUSTRY CHALLENGES

- 3.1 The challenges facing the Nigeria electricity sector are many, and they include the following:
- (i) Inadequate generation owing to unavailability of gas, among others. Currently, most of Nigeria's electricity is generated from gas. Because gas supply to the power sector has been very unreliable, Gencos do not often generate as much electricity as they could. This means that we do not receive enough electricity supply to meet our customers' needs;
  - (ii) An old and weak national transmission grid, which means that Gencos cannot always get their electricity to the Discos;
  - (iii) Discos' distribution lines need major repairs and expansion, but Discos do not have money to make the needed investments, instal meters, change bad transformers or effect repairs;
  - (iv) Banks will not lend Discos money to repair their networks or buy meters and transformers until they are sure that the Discos will get the tariffs that will enable them collect enough money to repay loans. The loan that CBN is giving to Gencos and Discos was based on the agreement that tariffs will be cost-reflective.
- 3.2 The major reason behind these challenges is that for very many years, not enough money was spent on maintenance, repairs and expansion. It will take some more years before supply will be as good as we need it. We all need to work hard to make sure that this happens as quickly as possible.
- 3.3 The electricity used by customers is provided to us by Gencos. When we pay the Gencos' bills promptly, they will have money to fix old plants, procure more gas, and give us more electricity. We also want to procure more power locally and nationally through embedded generation. We cannot directly control how much electricity we get, but we will do everything we can to get as much electricity as possible to our customers.
- 3.4 More electricity is important for all of us. A lot of our costs are fixed and do not depend on how much we supply. That means that if we get more electricity, we will be able to reduce our prices by spreading our fixed costs over a wider base.



## **4. THE TARIFF REVIEW PROCESS AND AREAS UNDER REVIEW**

### **4.1 How Our Prices are Regulated**

- 4.1.1 Electricity supply is a regulated sector, and the amount of revenue, and the prices that EEDC, or any other Disco can charge, are capped and regulated by NERC.
- 4.1.2 The revenue we are allowed by NERC is based on our investment plans for improving supply, and the cost of running our business. Our biggest costs each month are bills from Gencos for the electricity they supply, payment to TCN for transmission and other services, staff salaries and network repairs. At the moment we do not get enough money each month to meet these costs. That means that we do not have any money left over to start our planned investments in meters, transformers and network expansion.
- 4.1.3 We do not get any tariff subsidy from the Government. MYTO 2 Distribution Tariff Order stipulated that the Government would provide a tariff subsidy, which was to be phased out in June 2014, when it was hoped that a viable tariff for the industry would have been established. However, Government's payment of the subsidy was very irregular. Moreover, none was paid between handover in November, 2013, and June, 2014, when the intervention was phased out.
- 4.1.4 In the absence of subsidy, the only way Gencos, TCN and Discos can cover their costs is through the tariffs we charge you. This is why we need cost reflective tariffs to let us meet our obligations in the Performance Agreement and improve our supply to you.
- 4.1.5 The purpose of this tariff review is to ultimately set a tariff that is fair to customers, yet sufficient for everyone in the electricity sector to improve our supply to you.
- 4.1.6 Many of the forecasts that go into calculating the tariff are provided by NERC as standard for the industry. These include macro-economic projections for inflation, foreign exchange rates, gas prices, cost of generation, cost of transmission and many more. Importantly, NERC will also provide a forecast for the expected increase in generation over the next 10 years.

4.1.7 ***There are some other aspects of the tariff that we can propose to NERC. We want to check that our approach is right for our customers too, so we welcome your views.***

## **4.2 We are proposing an approach that is fair to everyone**

4.2.1 A lot of our costs are fixed. This means that as we receive more electricity from generators, the cost of each unit we supply to customers goes down. Also, once we can make the investment to meet our obligation to reduce ATC&C losses, the cost for each unit we supply will go down. Supply and prices should get better if everyone in the electricity supply chain can make the investment needed. More electricity means good news for prices!

4.2.2 Investment in new generation takes time and as a result, a tariff level that would recover all our costs today would be much higher than the current level.

4.2.3 We are therefore proposing a “sculpted” tariff regime that is spread over 10 years. Even though we are losing money, we will not increase our prices excessively now. We will be patient and recover our losses over a longer term. We will spread the cost over 10 years. After 10 years, tariffs will be reviewed and we hope to be able to start reducing tariffs by then.

4.2.4 It is important to note that although we are proposing a sculpted tariff, prices may go up or down sometimes to reflect changes in the economy that we cannot control, like inflation, foreign exchange rate and fuel prices.

4.2.5 Our business will still be losing money for a few years. But we can keep our promises to install meters and connect new customers because you agree to pay current tariffs for a bit longer once we reduce losses and costs. We believe this is fair to everyone.

## **4.3 Tariff components: the Fixed Charge**

4.3.1 The customer's bill has two components - the fixed charge and the energy charge.

- 4.3.2 The energy charge is the amount billed for the actual energy delivered and consumed by an electricity customer, measured in kilowatt hour (kWh).
- 4.3.3 The fixed charge is independent of consumption, and is charged on a monthly basis so that the Disco can recover some of the costs associated with the fixed or permanent investments required to generate, transmit and distribute electricity. In the same way, Discos also have to pay Gencos capacity charges, which are also independent of generation to cover Gencos' fixed costs.
- 4.3.4 The reality is that a big part of a Disco's costs are fixed, and the fixed charge is meant to partly reflect these fixed costs. Most electricity utilities around the world have a fixed charge because it is necessary to ensure the sustainability of the industry and drive investments.

#### **4.4 Tariff components: Maximum Demand**

- 4.4.1 Some categories of our larger customers make heavier demands on the network at some times than at others. These large "pulls" on electricity can cause inefficiencies in the distribution network.
- 4.4.2 Large consumers with a high maximum demand are expected to install power factor correction equipment to avoid distortion and damage to the network. However, this was not enforced in the past in our area.
- 4.4.3 Our tariff application will introduce additional charges called "kVA" and "Maximum Demand" charges to ensure that the biggest consumers pay based on the way they use electricity, and abide by the strict standard of operation to help us deliver as much electricity as possible to all our customers.

#### **4.5 ATC&C Losses**

- 4.5.1 EEDC's NERC-verified and validated baseline ATC&C loss is 59.1%. However, we have an obligation to reduce it to 11.57% over a period of five years.
- 4.5.2 Our proposal to NERC will provide evidence of our actual losses. Once we have a sustainable long term tariff, we will be able to invest to reduce these losses.

4.5.3 ***We ask for the help of all our customers by paying for the electricity they consume, reporting incidences of electricity theft and any fraudulent behaviour on the part of our staff providing services to you on behalf of our Company.***

4.5.4 It is hoped that with improvements in the networks, which are part of our investment plan, these losses will reduce significantly. This is vital to enable us to improve service delivery to our customers.

## **4.6 Embedded Generation**

4.6.1 We are keenly aware of our customers' frustration with shortages in power supply and the associated negative consequences.

4.6.2 The generation challenges have led us to consider, in the short term, the procurement of additional power through embedded generation. These new, smaller local generators will help us to reduce our over-reliance on the national grid.

4.6.3 In this wise, we have formally applied to NERC for approval to procure additional 175 MW through embedded generation, and our request for expression of interest from developers was advertised earlier this year in national newspapers.

4.6.4 However, embedded power generation costs more, because the units are smaller. But we will use a transparent and competitive process to get the best value possible, under the supervision of NERC. We will therefore be asking NERC to make allowance for this in our tariff.

## **4.7 Rate Design/Customer Reclassification**

4.7.1 Our tariffs are currently designed so that residential customers that consume the least energy pay the lowest tariffs. Currently, this favours the R1 and R2 tariff categories. However, other customers (larger residential, commercial and industrial) customers that consume more energy are paying more.

4.7.2 We want to keep this principle. However, we have found that within the larger residential, commercial and industrial customers, some actually consume even much more than others. As such, it may be fair to break them down further into more tariff classes.

- 4.7.3 We are considering different rate designs that will be fairer to everyone. This will involve a review of our customer classification, and we expect to form some at least one tariff category, particularly from R2.
- 4.7.4 We will also ensure that all customers are assigned the right class, and that no customer is subsidising any customer.

#### **4.8 Customer Numbers**

- 4.8.1 The current tariffs do not accurately reflect the current number of customers and the way we expect customer numbers to grow.
- 4.8.2 We are in the last stages of selecting the project contractors for a massive customer location and assets data capture and customer enumeration project. The project is scheduled to commence in November, 2015, and will run alongside the first phase of our metering roll-out. The result from the enumeration, which will be factored into the tariffs, will give us a true account of our customer numbers and its growth pattern. It will also help us to properly classify our entire customer population.
- 4.8.3 This will also help us develop an accurate customer database and improve our customer service to you.

#### **4.9 Load Allocation Rebalancing**

- 4.9.1 In electricity distribution, every customer belongs to a particular tariff class. The amount of energy consumed by all customers in each class affects our total revenue because customers in different tariff classes do not usually pay the same amount for energy consumed. Load Allocation is the process of determining how much energy is consumed by customers in each class and a correct load allocation is necessary to make our revenue calculation as accurate as possible.
- 4.9.2 Our tariff submission to NERC will capture the results of our energy demand assessments and the attendant load rebalancing projections to give a more accurate load allocation among our customer classes.

#### **4.10 Revisions to expected operational and capital costs**

4.10.1 The capital and operational costs currently provided for in our regulated tariffs were decided before we took over the business, and do not exactly reflect our full investment plans.

4.10.2 We believe some adjustments are necessary in order for us to match our investment plans. The adjustments will ensure that we meet our performance targets and provide the most efficient service to you.

4.10.3 As a separate matter from the rest of this consultation, we will be requesting NERC to consider revised capital and operational costs that match our investment plans. This is largely because the company's equipment and network is worse than everyone expected when the initial investment plan was made.

## **5. OUR INVESTMENT PLAN**

- 5.1 The successful conclusion of this tariff review exercise will enable us achieve our Investment Plan, which is essential for meeting our target of improved service delivery to our customers.
- 5.2 The Investment Plan is designed to allow us to meet our promises to you. Some important aspects of the plan include the following:

### **Metering for Maximum Demand Customers**

5.2.1 We are using our Maximum Demand (MD) customers to begin the implementation of our metering roll-out. All necessary contracting has been concluded, and all our unmetered MD customers will be metered between June and December, 2015. We will also replace all non-functional MD meters within this time.

### **Mass Metering Plan**

5.2.2 The contracting for EEDC's mass meter roll-out is nearing completion, and will be preceded by a technologically driven customer location and assets data capture. The mass metering plan will be in two phases, namely:

- (i) Phase 1, which will run from November 2015, to March 2016. Within this period, 22,550 Non-MD meters will be installed; and
- (ii) Phase 2, which will run from 2016 to 2017, and during which any existing metering gap will be covered.

### **CAPMI Implementation**

5.2.3 It needs to be stated from the outset that the Credited Advance Payment for Metering Implementation (CAPMI) is not part of EEDC's Investment Plan. Rather, it is a laudable customer financed metering initiative from NERC that is aimed at helping the Discos to close the metering gap.

5.2.4 We were forced to request design modifications to the CAPMI scheme from NERC when we observed the terrible abuses the meters in our network had been subjected to through by-pass,

load diversion and cloning. The modification sought will help us to combat these abuses. NERC recently granted our request and our customers can now take full advantage of the scheme.

5.2.5 Under the CAPMI scheme, customers who cannot wait for our general metering roll-out can get meters within 45 days of payment of the NERC-approved price. The cost of the meter less costs associated with installation will be refunded to the customer over a period of time through a reduction of the monthly fixed charge. ***Our plans to give massive publicity to the scheme are at an advanced stage.***

### **Improvement in Service Delivery**

5.2.6 We recognize that our service delivery is yet to meet our customers' expectations in many respects. This is despite our ongoing efforts at clearing faults, replacing damaged or obsolete equipment, general network reinforcement, etc, within the limits of available resources.

5.2.7 In order to improve our services to our customers, we advertised in three national newspapers and the Federal Tenders Journal, between March and April, 2015, requesting qualified vendors and contractors to tender for:

- (a) the supply of various types of distribution equipment, including transformers, cables, poles and fast moving distribution spares;
- (b) the construction of relief substations in all the five States of the South-east;
- (c) the rehabilitation and re-conductoring of 0.415 KV, 11KV and 33 KV Lines in all the five States of the South-east; and
- (d) trace clearing of 0.415 KV, 11 KV and 33 KV Lines in all the five States of the South-east.

5.3 The processes for procuring the equipment and services are nearly completed and our customers should expect marked improvement in services very soon.



## 6. HOW YOU CAN HELP US

6.1 Our goal is in line with one of the principal objectives of the EPSR Act, as stated in section 32(1)(c) of the Act, namely:

***To ensure that an adequate supply of electricity is available to consumers.***

6.2 The task is a massive one and requires cooperation from everyone. The responsibility belongs to all of us.

6.3 We have undertaken binding obligations to improve our service to our customers. We also want promises from you, our customers, in return for connecting to the network.

6.4 We ask you to:

**(a) Pay your electricity bills on time;**

**(b) Report anyone working for our Company who does not meet our strict standards of honesty and integrity;**

**(c) Report anyone you suspect of electricity theft; and**

**(d) Report anyone you suspect of tampering with our equipment, such as meters, transformers, poles, etc.**

6.5 When you help us to spot and address problems, you help us to give you lower prices in the future. Thank you for your help.

6.6 Please remember that there are laws against stealing or tampering with our supply:

6.6.1 Stealing of electricity is a felony punishable by imprisonment under the Criminal Code.

6.6.2 Tampering with electric fittings, meters, etc, is an offence under the Miscellaneous Offences Act, and is punishable with imprisonment for a term of 21 years or life (see Section 1[9] and [10]).

6.7 We will enforce these laws much more strictly in the future to make sure that everyone pays a fair price for electricity.

## **7. LET US KNOW WHAT YOU THINK**

- 7.1 We welcome the views of our customers (Residential, Commercial, Industrial, Special and Street Lighting), customer associations, other associations, local and state governments, or anyone who has an interest.
- 7.2 You are invited to present your comments to this Consultation Paper within two (2) weeks following its publication. Please give us your comments **not later than 10<sup>th</sup> July, 2015**.

### **Our contact information**

- 7.3 You can let us know what you think about our proposals for the tariff review by calling us on: **08182502588**
- You can also email us at: **info@enugudisco.com**
- Or visit our website: **www.enugudisco.com**

### **Other Issues**

- 7.5 If you have other questions or complaints about your accounts, please visit us get at our various District customer complaints handling units. You can also call us on the following Customer Care Line: **08121020423**
- 7.6 For reporting suspected theft or tampering with our equipment, please call us on: **08182502588** and **08121020423**
- 7.7 For reporting a member of our staff who is acting improperly, please call us on: **08146026678**

Or e-mail us on: **info@enugudisco.com**

***You may rest assured that your report about any staff who is acting improperly will be treated in the strictest confidence.***