



ORDER NO: NERC/332/2022

**BEFORE THE NIGERIAN ELECTRICITY REGULATORY COMMISSION
IN THE MATTER OF JULY 2022 MINOR REVIEW OF MULTI-YEAR TARIFF ORDER (MYTO)
2022 FOR THE TRANSMISSION COMPANY OF NIGERIA PLC**

TITLE

1. This regulatory instrument shall be cited as the **JULY 2022 MINOR REVIEW OF MULTI-YEAR TARIFF ORDER – 2022** (“July 2022 Minor Review Order”) for the Transmission Company of Nigeria Plc (“TCN”).

COMMENCEMENT AND TERMINATION

2. This Order shall take effect from 1st July 2022 and shall only be subordinated to a new Tariff Review Order as may be issued periodically by the Nigerian Electricity Regulatory Commission (“NERC” or the “Commission”).

CONTEXT

3. Pursuant to sections 32 and 76 of the Electric Power Sector Reform Act (“EPSRA”), the Commission approved the Multi-Year Tariff Order – 2022 (“MYTO – 2022”) for TCN effective from January 01, 2022. The MYTO – 2022 reviewed TCN’s TLF from 8.05% to 7.5% to reflect the impact of investments made since 2012 on the reduction of TLF and to support necessary adjustments in the determination of industry tariffs and minimum loss allowances to be considered by generators on the transmission network. Further, the Commission approved a cumulative TLF reduction trajectory of one percentage point over the next five years (2022 – 2026) to incentivise continuous improvement in TCN’s operational efficiency.
4. Accordingly, in line with the MYTO Methodology and Regulations on Procedure for Electricity Tariff Reviews in the Nigerian Electricity Supply Industry (“NESI”), this July 2022 Minor Review Order considered changes to periodic (semi-annual) “Minor Review Variables” (indices not within the control of licensees) including inflation rates, the foreign exchange rate (NGN/USD), gas price, available generation capacity, and retroactive claw back of unutilised CAPEX provisions.

OBJECTIVES

5. The objectives of this Order are to –
 - a. Provide appropriate incentives towards ensuring continuous improvement in the performance of the Transmission Company of Nigeria (“TCN”) in reducing network losses.
 - b. Apply the impact of changes in the projected Minor Review Variables for the period January to June 2022 for the determination of Cost-Reflective Tariffs (“CRT”).
 - c. Reaffirm the interim payment arrangements and flow of funds from DisCos to the Market Operator (“MO”).
 - d. Steer the market to gradual transitioning to CRT and activation of market contracts in line with the requirements of the Transitional Electricity Market (“TEM”).
 - e. Reaffirm the obligation of the System Operation (“SO”) Division of the TCN to comply with the EMOD prescribed in this Order towards ensuring compliance with the projected least generation cost prescribed in this Order.
 - f. Reaffirm the obligation of the Transmission System Provider (“TSP”) under the TCN for the payment of “generation capacity charge” and “loss of revenue” to DisCos based on the deviation between energy delivered to a DisCo and the MYTO allocation arising from the TCN’s inability to deliver power to the affected DisCo.
 - g. Reaffirm the obligation of DisCos for the payment of “loss of revenue” in favour of the TCN in line with the provisions of the executed Service Level Agreement.

MINOR REVIEW INDICES

6. In line with the subsisting MYTO methodology, the following indices with potential impact on electricity rates were considered. These indices shall be reviewed every 6 months to update the tariffs with changes in the indices as applicable in line with the MYTO Methodology:
 - a. **Nigerian Inflation Rate:** Average inflation rate of 17.14% for 2022 was derived based on the actual average monthly inflation rate for the period January 2022 to May 2022 as well as projection of the May 2022 inflation rate for the remainder of 2022. The Nigerian inflation rates were obtained from the website of the National Bureau of Statistics (“NBS”).
 - b. **Exchange Rate:** The relevant data on the Naira/US. Dollar (₦/\$) exchange rate used for this review was based on the “Investors and Exporters (“I and E”) FX-Window” of the Central Bank of Nigeria (“CBN”). Average exchange rates for the period 1st

January 2022 to 31st May 2022 of N415.96/\$1, plus a 1% premium of N4.16 adding up to a total of N420.12/\$1 was adopted for 2022 and beyond.

- c. **US rate of inflation:** The U.S. inflation rates applied in this review were obtained from the website of the U.S. Bureau of Labor Statistics. Average inflation rate of 8.42% for 2022 was derived based on the actual average monthly inflation rate for the period January 2022 to May 2022 and adoption of the May 2022 inflation rate for the remainder of 2022.
- d. **Available Generation Capacity:** In consideration of periodic reports from the System Operator, a projection of average sent-out generation of 4,971MWh/h is adopted for the period 1st July 2022 to 31st December 2022.
- e. **Gas Price:** The benchmark gas price of US\$2.18/MMBTU, gas transportation cost of US\$0.80/MMBTU, and contracted gas prices outside Domestic Gas Supply Obligation ("DOMGAS") quantities and based on effective Gas Sale Agreements ("GSAs") approved by the Commission were adopted.
- f. **CAPEX Adjustment:** In line with the requirements of Section 7(a) of Regulations on Procedure for Electricity Tariff Reviews in the NESI, adjustments were made to TCN and DisCos' MYTO CAPEX provisions to account for material variances between the actual CAPEX utilisation and MYTO CAPEX provisions.

SUMMARY OF TARIFF ASSUMPTIONS AND RESULTS

7. Table 1 below provides a summary of the minor review parameters and corresponding generation and transmission tariffs for 2022. Appendix – 1 provides details of the transmission and administrative charges per DisCo.

Table 1: Projected Indices

Parameter	Unit	Jan – Jun 2022	Jul – Dec 2022
Nigerian Inflation	%	15.4%	17.14%
US Inflation	%	6.8%	8.4%
Exchange Rate N/\$	N	415.7	420.1
Transmission Loss Factor	%	7.50%	7.50%
Energy Delivered to DisCo	GWh	40,283	40,283
Energy Delivered to DisCo	MWh/h	4,599	4,599
Generation Cost	N/kWh	27.5	28.1
Transmission & Admin Cost	N/kWh	5.2	5.5
Minimum Remittance to MO	%	100%	100%

ECONOMIC MERIT ORDER DISPATCH

8. The Economic Merit Order Dispatch (“EMOD”) prescribed for the period July – December 2022 is based on the capacities considered in the first phase of contract activation in the NESI. The EMOD prescribed in Table – 2 below shall form the basis for dispatch by the System Operator from July 2022 – December 2022.

Table – 2: Economic Merit Order Generation Dispatch – 2022

Merit Order	GenCo	Sent out Generation		Load Factor
		Peak	Baseload	%
		MWh/h	MWh/h	
1	Shiroro	450	450	100%
1	Jebba	300	300	100%
1	Kainji	350	350	100%
2	Okpai	340	340	100%
2	Azura	430	430	100%
2	Shell	220	220	100%
2	Omotosho Gas	186	186	100%
2	Olorunsogo Gas	186	186	100%
3	Egbin	500	375	83%
3	FIPL- Trans-Amadi	59	44	83%
3	FIPL-Omoku	59	44	83%
3	FIPL-Rivers	160	120	83%
3	Transcorp Ughelli	480	320	78%
3	Trans Afam	50	38	83%
3	Calabar NIPP	330	248	83%
3	Alaoji NIPP	110	83	83%
3	Omotosho NIPP	100	100	100%
3	Olorunsogo NIPP	100	75	83%
3	Geregu NIPP	135	101	83%
3	Ihovbor NIPP	100	75	83%
3	Ogorode NIPP	100	75	83%
3	Geregu - Gas	270	203	83%
4	Mabon	30	16	69%
4	Ibom Power	67	0	33%
4	Sapele IPP	67	0	33%
	Total	5,178	4,378	90%

Discos' Contracted Capacities

9. Table – 3 below provides the ongrid capacities contracted for the DisCos under the gradual/partial activation of contracts with NBET and other bilateral suppliers. The TCN has also executed Service Level Agreements with all the DisCos as well as Power Evacuation Agreements with the GenCos in defining expected obligations of the parties to support efficient dispatch of contracted capacities. The contracted capacities in Table – 3 below shall apply from July 2022 – December 2022.

Table – 3: DisCos' Contracted Capacities

Disco	NBET's Contracts		NBET and Bilateral Contracts	
	Baseload	Peak Load	Baseload	Peak Load
	MWh/h	MWh/h	MWh/h	MWh/h
Abuja	551	661	551	661
Benin	336	417	336	417
Eko	384	472	484	572
Enugu	392	458	392	458
Ibadan	495	611	495	611
Ikeja	580	650	580	650
Jos	235	285	235	285
Kano	290	320	290	320
Kaduna	274	317	274	317
Port Harcourt	296	355	296	355
Yola	117	144	117	144
Delivered to Disco	3950	4690	4050	4790
Sent-out Generation	4270	5070	4378	5178

CAPACITY PAYMENT

10. The average tariff for DisCos was determined considering their projected energy offtake and allocated capacities under the gradual/partial activation of contracts with NBET and other bilateral suppliers. NBET shall continue to invoice DisCos for capacity charge and energy based on their load allocation and metered energy respectively. Where it is established that TCN is unable to deliver any DisCo's load allocation, TCN shall be liable to pay for the associated capacity charge. Where a DisCo fails to take its entire load allocation due to constraints in its network, the DisCo shall be liable to pay the capacity charge as allocated in its Vesting Contract and with the provisions of the applicable MYTO Order.

LOSS OF REVENUE

11. TCN is obligated to deliver power at DisCos' trading points in accordance with DisCos' day ahead nomination, load allocation under the vesting contract between the NBET and the DisCos, and the Service Level Agreements (SLA) signed between TCN and the DisCos. Where it is established that TCN is unable to deliver the load allocation to a DisCo due to constraints in its (TCN's) network, TCN shall be liable to compensate the DisCo for the associated loss of revenue. Where a DisCo fails to offtake its load allocation due to constraints in its network, the DisCo is obligated to compensate TCN for loss of revenue arising from the stranded capacity as allocated in its Vesting contract and with the provisions of the applicable MYTO Order.

MINIMUM REMITTANCE REQUIREMENT

12. The Power Sector Recovery Plan ("PSRP") provides for a gradual transition to cost-reflective tariffs with safeguards for the less privileged electricity consumers in the society. The Federal Government, under the PSRP Financing Plan, has committed to funding the revenue gap arising from the difference between cost-reflective tariffs determined by the Commission and the actual end-user tariffs during the transition to cost-reflective tariffs. The waterfall of market revenues during the transitional period shall be:
 - a. All DisCos are obligated to settle their market invoices in full as adjusted and netted off by applicable tariff shortfall and plus/minus "regulatory net-offs" approved by the Commission and communicated to the Principal Collection Accounts (PCA) Settlement Administrator.
 - b. **Regulatory Net-offs are specific directives** issued by the Commission to the PCA Settlement Administrator on net-offs (+/-) in a **fixed sum requiring no further computation** applied to a DisCo's minimum remittance obligation to the MO or the NBET for a specific number of months.
 - c. All DisCos shall be availed the opportunity to earn their approved revenue requirement only upon fully meeting the following obligations and subject to efficient operations:
 - i. Repayment of CBN-NEMS facility
 - ii. 100% settlement of MO invoice issued based on tariffs approved in this Order subject to "regulatory net-offs" approved by the Commission
 - iii. Full settlement of Minimum Remittance Requirement of NBET's monthly invoices being the minimum remittance threshold prescribed in this Order subject to "regulatory net-offs" approved by the Commission.

- d. All DisCos shall be held liable for relevant penalties/sanctions where they fail to meet the minimum remittance requirement in any payment cycle in accordance with their obligations to the MO and NBET.
- e. All DisCos shall maintain an adequate securitisation for energy off-take in line with the provisions of the Market Rules.

EFFECTIVE DATE

13. This Order shall be effective from 1st July 2022.

Dated this 1st July 2022



Sanusi Garba
Chairman



Musiliu O. Oseni
Vice Chairman

Appendix – 1:
Breakdown of TCN and Admin Charges July – December 2022

DisCo	TSP	SO	MO	Ancillary	Regulatory	Bulk Trader	Total
	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh
ABUJA	3.869	0.723	0.081	0.129	0.654	0.053	5.510
BENIN	3.869	0.723	0.081	0.129	0.660	0.053	5.516
EKO	3.869	0.723	0.081	0.129	0.662	0.053	5.518
ENUGU	3.869	0.723	0.081	0.129	0.655	0.053	5.511
IBADAN	3.869	0.723	0.081	0.129	0.690	0.053	5.546
IKEJA	3.869	0.723	0.081	0.129	0.635	0.053	5.491
JOS	3.869	0.723	0.081	0.129	0.675	0.053	5.531
KADUNA	3.869	0.723	0.081	0.129	0.666	0.053	5.522
KANO	3.869	0.723	0.081	0.129	0.639	0.053	5.494
PORT HARCOURT	3.869	0.723	0.081	0.129	0.658	0.053	5.514
YOLA	3.869	0.723	0.081	0.129	0.674	0.053	5.530