Thanks for joining:

PwC Nigeria's Webinar

PwC Nigeria's Power Sector Webinar

COVID-19 and the Power Sector

Macro-Economics, consumer purchasing power and cost reflective tariff

pwc

Presentation starts: 4:00pm

Jide Adeola

Partner Energy Utilities and Resources
PwC Nigeria

The Moderator

Welcome

Pedro Omontuemhen

Partner/Energy Utilities and Resources Leader PwC Nigeria

Opening Remark

Bimbola Banjo

Director, Management Consulting PwC West Africa

Presentation of Cold Facts

Key Facts

April 2020

Macroeconomic factors, unemployment on the rise

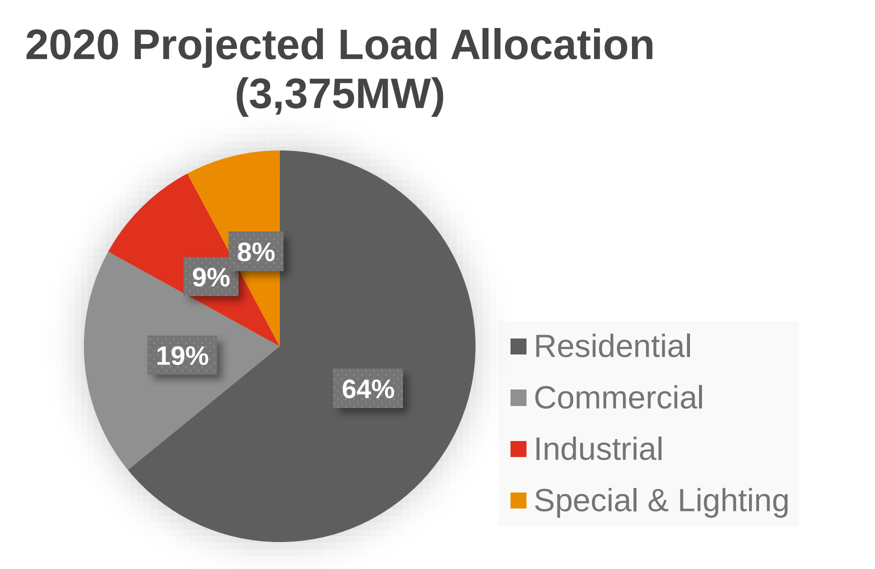
Macroeconomic outlook

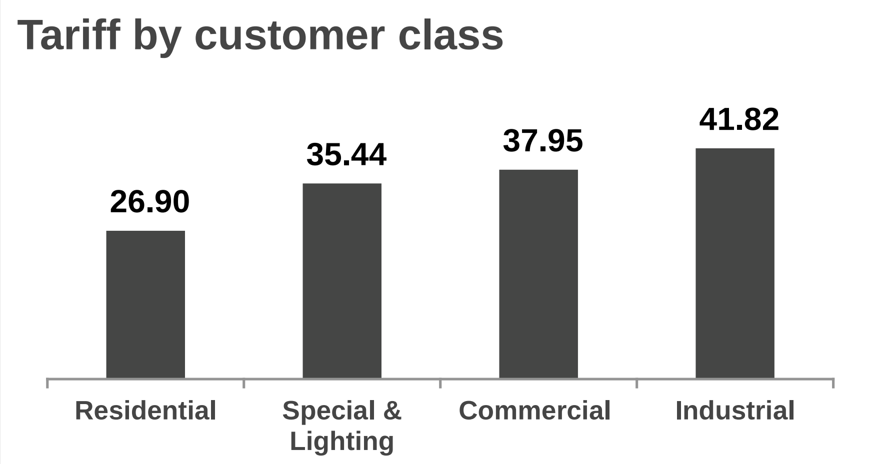
Increasing Unemployment Rate	• Nigeria has one of the highest unemployment rate (ranked #21) in the world about at ~**23.1%** • Before the Pandemic, unemployment rate was projected to rise to as high as **33.5%** in 2020 • The U.S. witnessed a sharp rise in unemployment from **4.4%** in January to over **15%** in April 2020
Decreased Consumer Purchasing Power	• Over **55%** of household income is spent on food and beverages • Only about **2%** of household income is spent on energy (African average is 5%) • Movement restrictions have not only reduced the consumption of nonessential commodities in general, but have affected the generating capacity of households • Low expectations of future income
Reduced government revenue from oil	• ~**$57** per barrel in January 2019, Now ~**$15** a barrel as of April 28th • Impact is especially heavy because oil accounts for **90%** of Nigeria's exports proceeds • Primarily due to the oil price/demand drop, the Minister of Budget announced a **1.5 trillion naira ($4.17 billion)** cut in non-essential spending

Reduced economic activity	• Unanticipated rise in healthcare expenditures. Nigerian health care expenditure is **4%** of GDP which is lower than global average of **9%** to GDP.
	• Declining net exports due to:
	  ○ disruption in supply chain trade,
	  ○ border closure to nonessential trade
	  ○ limited markets for exports due to fall in global demand

Source: World Bank, CBN, MFBNP, NBS, US Dept of Labour

The power sector is not immune to the adverse effects of the pandemic



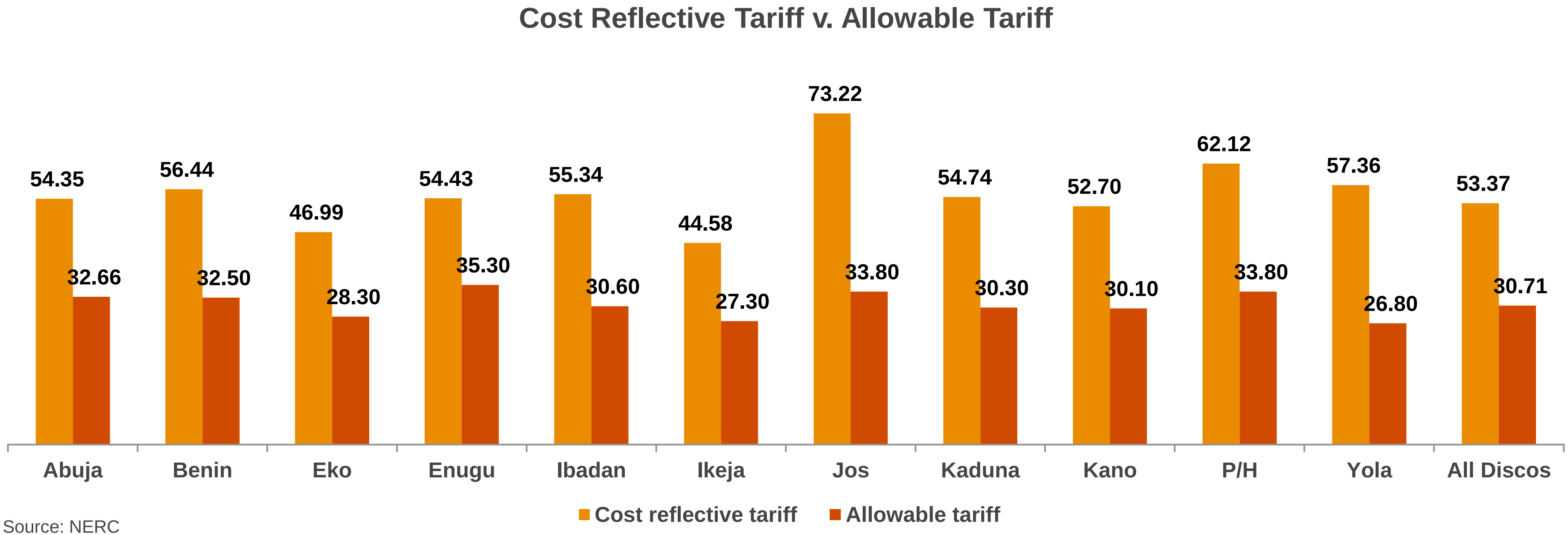


Source: NERC

- The COVID-19 lockdown has led to shut down of all but essential commercial activities across the country. Consequently, the electricity demand from industrial and, commercial customers has reduced significantly while the residential demand is expected to have increased.
- Discos have a lower tariff for Residential customers, sometimes even below the average cost of supply, as compared to that for commercial and industrial consumers. The lower tariff-paying consumers are cross-subsidized by commercial and industrial consumers.
- An obvious impact of the current situation on DISCOs arises from the **loss of revenues due to reduction of demand from the commercial and industrial customers. This affects the ability of the tariff to effectively provide cross-subsidies to the lower-tariff paying consumers.**
- The full long-term impact of the current situation would only become apparent with time. Nevertheless, some early impacts of COVID-19 on the Nigeria power sector are already being felt.

NERC Suspends Electricity Tariff increase amidst COVID 19

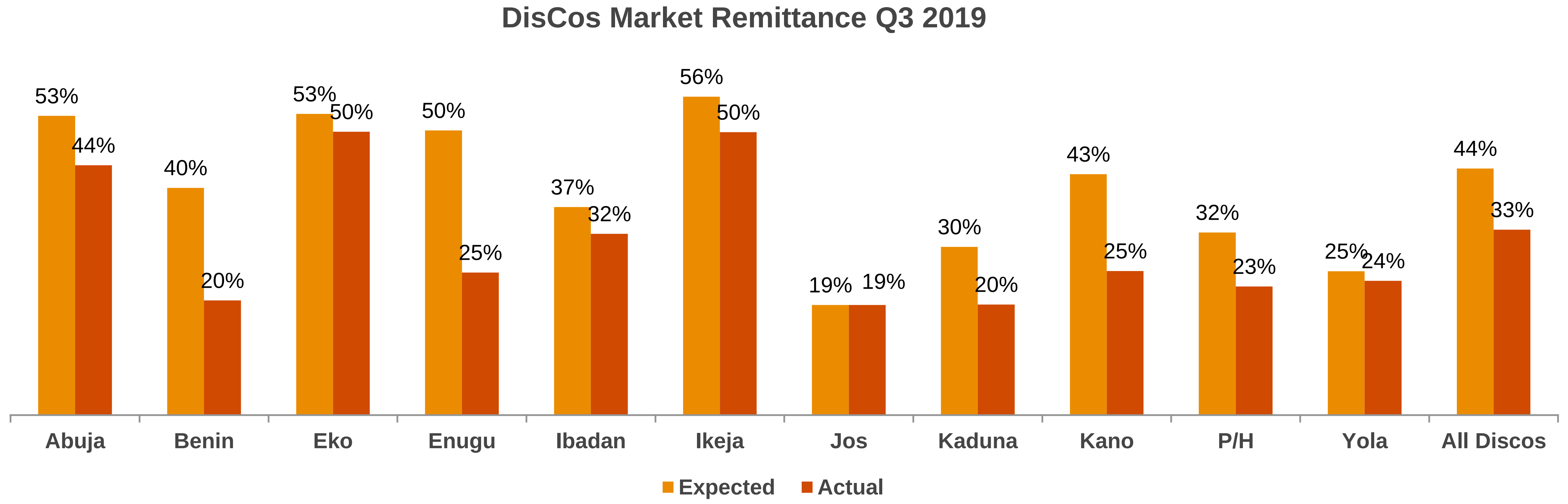
- NERC had planned by its December 2019 **‘Minor Review of Multi-Year Tariff Order of 2015 and Minimum Remittance Order for the year 2020’** sanctioned a minor review of the electricity tariff to commence by 1st April 2020.
- **‘NERC Order on the Transition to Cost Reflective Tariffs in the Nigerian Electricity Supply Industry’** effectively postponed the take-off date of the minor review of the electricity tariff.



Source: NERC

The Minimum Remittance Order remains in force for the year 2020

- The Minimum Remittance Order is a step towards resolving the liquidity and financial challenges of the electricity market.
- The Order stipulates minimum remittance obligation for each DISCOs with due consideration to the current tariff shortfall.
- The Discos earn the revenue stated in the Minimum Remittance Order only upon meeting certain obligations and subject to efficient operations.

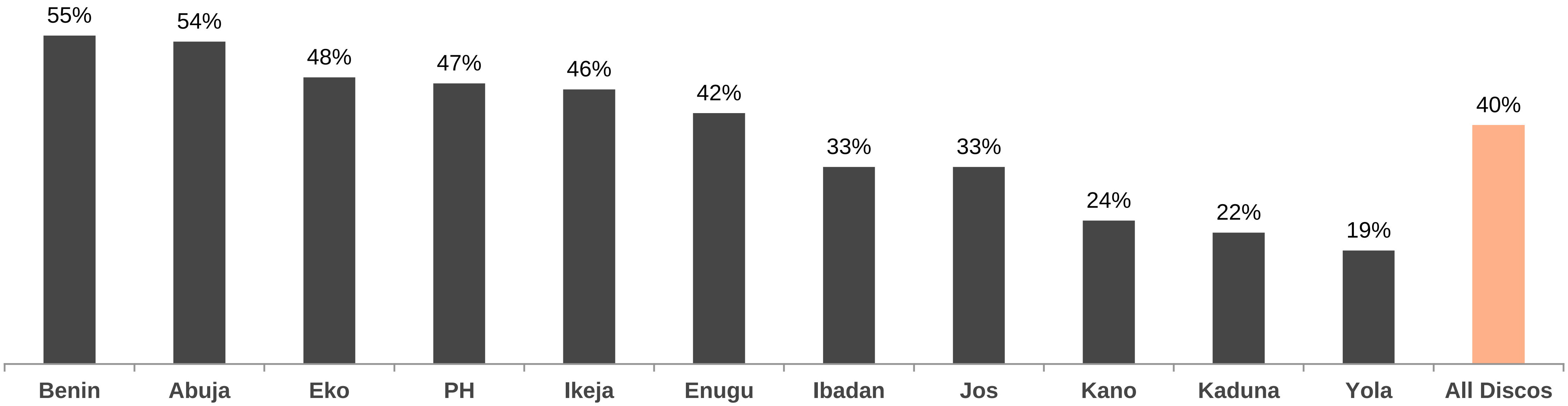


Source: NERC

COVID -19 Pandemic Impacts the availability of meters

- The recent order of the commission on estimated billing methodology and capping the energy billed for unmetered customers was issued as a measure to address customers complaints on overbilling.
- The MAP Regulation of 2018 was created to close the metering gap through an accelerated meter roll out.
- The current situation has significantly impacted the roll out of meters by the MAPs.

Metered Customers as at Q3 2019

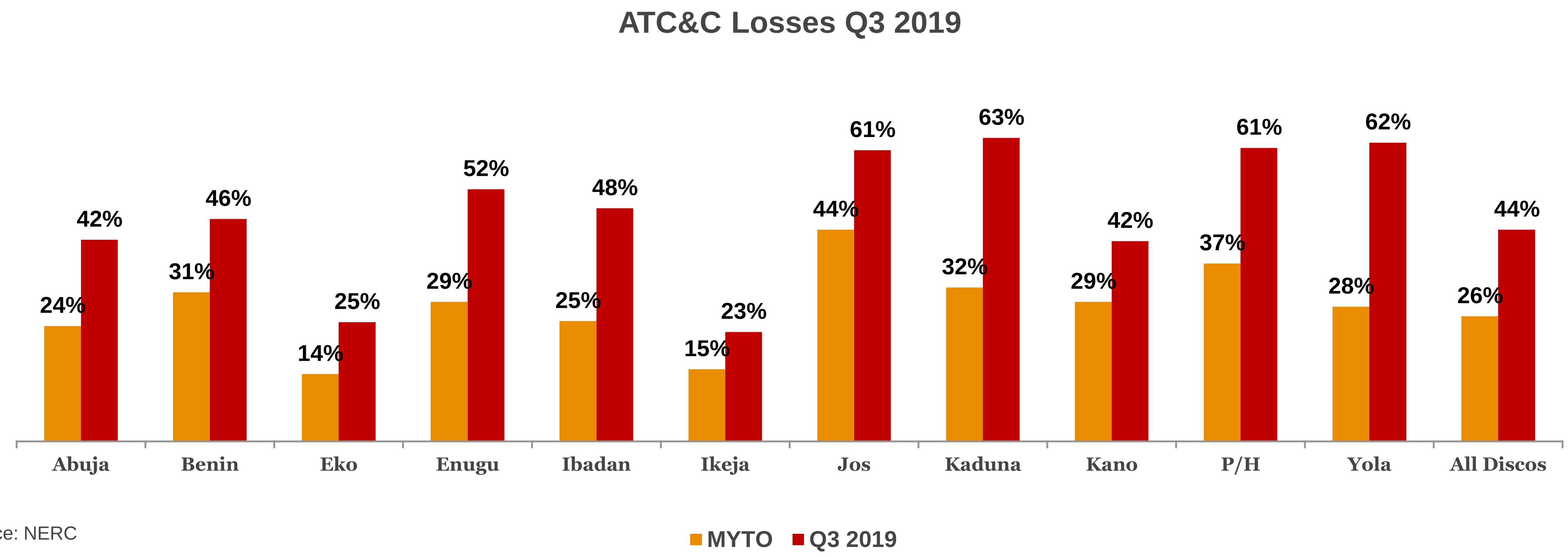


Source: NERC

The high ATC&C losses contributes to the liquidity challenges in the industry

- The high ATC&C losses in some DISCOs is due to a combination of: customers' behaviors regarding the use of electricity i.e. energy theft and unwillingness to pay; estimated billing and low metering; affordability issues; and deficient transmission & distribution networks.

- In the face of the current economy realities, DISCOs need to be more aggressive with their Performance Improvement Plans and strengthen their revenue assurance, monitoring and protection activities.



Source: NERC

These liquidity challenges has led to government bailouts

Power Financial Challenges

- Low Collection
- Non-cost reflective tariffs
- Distribution losses
- Inability for DISCOs to meet NBET obligations

2014 — **N213 billion**

The Federal Government approves a loan of N213 billion for DISCOs in 2014. This was part of the Nigeria Electricity Market Stabilization Facility (NEMSF) by the CBN

2017 — **N701 billion**

The Federal Executive Council (FEC) approved N701 billion CBN facility in March 2017 as Power Assurance Guarantee for the NBET for a period of two years

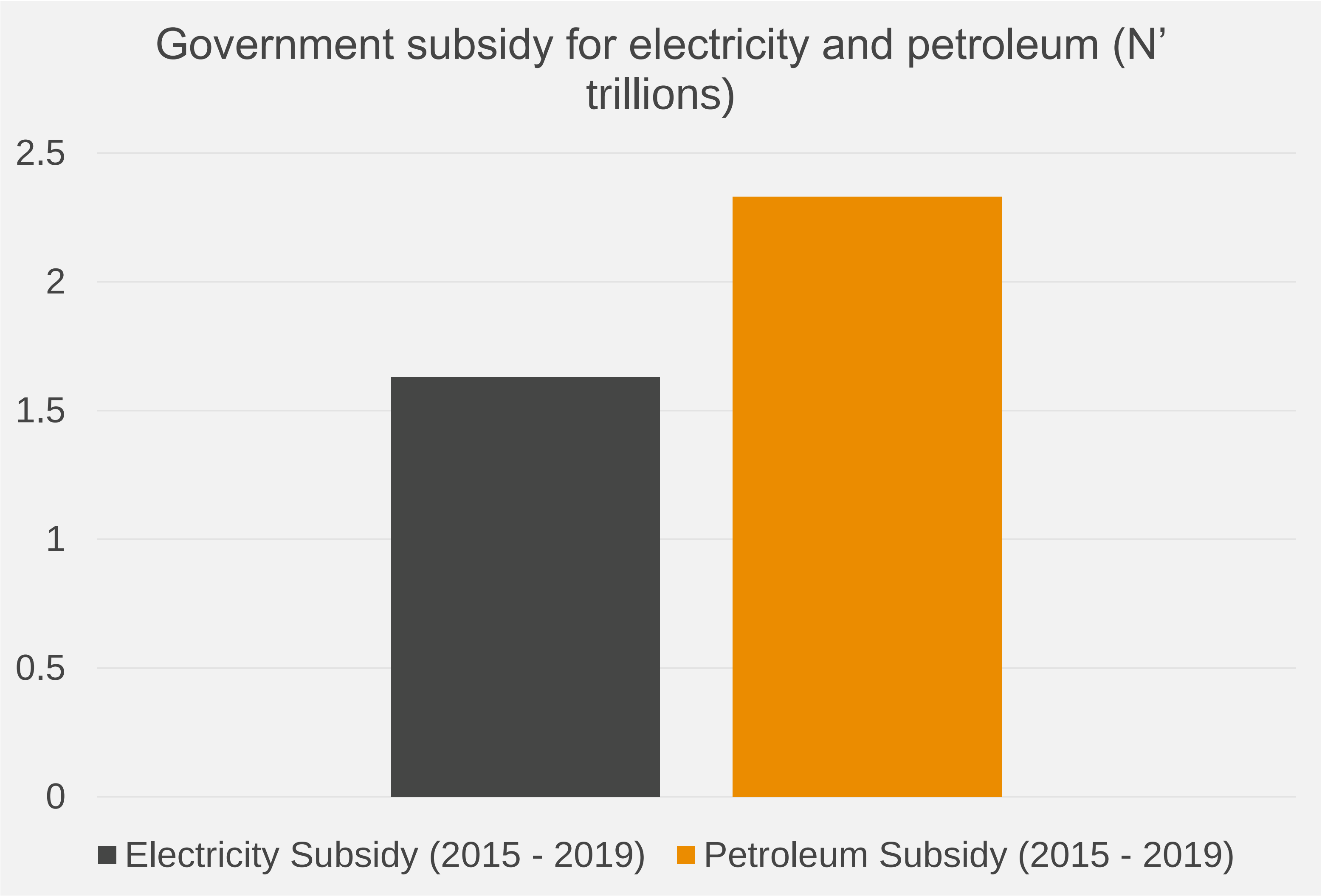
2019 — **N600 billion**

In August, 2019, the Federal Government signed the release of N600bn for the power sector which source said is meant for the shortfall in the payment of monthly invoices by key stakeholders in the sector.

Source: CBN, Public Information, NERC

Energy Sector Subsidy (2015 – 2019)

- The Federal Government (FG) has expended about **N2.3 trillion** as petroleum subsidy for the 4 years between (2015 – 2019).
- The tariff shortfall in the electricity sector which in substance is an electricity subsidy payable by the FG stood at **N1.63 trillion** between 2015 and 2019.
- Both subsidies alone amount to ~**N3.9 trillion** naira which represents about **31% of current foreign reserves** and **37% of the 2020 budget.**



Source: BudgIT, NERC

Thank you

Funke Osibodu
CEO Benin Electricity Distribution Company

George Oluwande Ph.D
Managing Consultant, Abisol Consultants

Eyo Ekpo
Director - New Frontiers Development Limited

Ahmad Zakari
SA Infrastructure to the President

Ebipere
SA Power to the CBN Governor

Panel Discussion

Funke Osibodu

CEO
Benin Electricity Distribution Company

Speaker

Considering Macroeconomics reduction in purchasing power, what is the business case for cost reflective tariffs

1. COVID-19 disease has **adversely impacted the wages and earning ability of practically all Nigerians –** with the greatest impact on daily wage earners, who constitute the largest subsegment of the adult working population.

2. On the one hand, due to closure or scale down in operations, there is **reduced energy consumption by commercial and industrial customers** (who cross subsidize the power industry with their higher tariff) resulting in reducing revenues from these customers who have the highest ability to pay;

3. On the other hand, there is **increased energy available to and consumed by residential customers** (i.e non-utilized power from commercial and industrial customers now given to residential) with increase in non-payment, consumer electricity theft – meter bypass and illegal connections

4. **Cost reflective** tariff is basically ensuring that the **tariff covers the cost of producing power** starting **from** the pricing for **gas input to generation of power, transmission and distribution of the power to customers** to ensure continuous flow of power and the sustenance of the total value chain, thereby ensuring that financiers and investors continue to be interested in producing, distributing and selling power. **Nobody business (including producing and increasing electricity) can be sustained if its cost is higher than its sales price- this is the business case.**

Source: Mrs Funke Osibodu

COVID-19 impacts the cost of delivery of electricity as well as the revenues of the complete value-chain.

This is transparently manifested through electricity distribution companies, in terms of the inability of customers to pay their bills and the resultant reduction in revenue collections. This can affect the continuous availability of the increased and improved power to residential customers if not managed.

Other COVID-19 related challenges include:

Disruption to the materials supply chains;

Increase in operational complexities and cost of operations;

specific capital investment tailored to ensure that there is consistent electricity supply for the stay-at-home restriction

Major negative impact of **increased foreign exchange rate** will further affect the tariff due to the high **FX component in cost of energy.**

Source: Mrs Funke Osibodu

How Discos are responding during Covid-19

Discos are now **rearranging the commercial part** of their operations to be more contactless with focus on efficiency by:

Telemarketing - Calling customers on experience on service delivery and non- payment

Encouraging all payments through **contactless channels- E-payments** i,e online electronic transfers, ATMs, POS

Innovative billing process- customers self-reading of postpaid meters, APP for reading, billing and distribution of postpaid bills

Distribution of bills through text messages, WhatsApp, emails, etc i.e move to **paperless distribution**

More active call center operations to receive customer complaints and sort out service issues.

The technical part of operations continues to be physically driven, though with increase in logistics and materials costs.

Metering under MAP is continuing although at very slow response rate from customers

Physical Enforcement activities is currently non-existent and may only be recommenced after lock down period is over, and recommended mainly for long term chronic debtors

Source: Mrs Funke Osibodu

Suggestions of short, and medium-term adjustments from other participants

Customers

With increase in power availability to residencies and expected increase in billing, **energy consumption savings is essential–** at least 30% of electricity is wasted. Energy management through only putting on only essential appliance when needed as well as energy saving appliances.

Embrace MAP prepaid metering to be conscious of cost of service- cheaper on long run even with initial capital outlay in the cost of metering- can save 15% to 20% cost

Government support

Pay all existing outstanding bills at Federal, State and Local government levels- has major impact on market liquidity and sustainability

Pass on the current reduced international gas price and **fix into naira the cost of gas** to power producers with federal government absorbing all exchange fluctuations going forward- this will significantly reduce impact of fluctuation in gas price on customers' tariff.

Provide moratorium (minimum of 12month) in payment of CBN and Federal Govt related facilities in the power sector to cover for COVID-19 adjustment period.

Removal of the increase of **30% on the duty on meter importation** to ensure that meters are more affordable

Government support in changing public mindset/culture from power should be a free social service venture to **a pay for power supplied to ensure improved service delivery and more power**

Source: Mrs Funke Osibodu

Suggestions of short, and medium-term adjustments from other participants

Regulator

- **A suspension and review of** regulations that have adverse impact on market and DisCo operations and are specific to the ability of the DisCos to remit monies upstream, e,g**. The Minimum Remittance Order**.

- A **review of MAP metering pricing** to allow MAP to continue metering at prices that is not negative

- Consideration and implementation of an intervention fund for NESI, similar to that which has been implemented in other sectors by the FGN.

- A coordinated and aligned policy and regulatory environment, with stakeholders' collaboration, that recognizes the required enabling framework that is critical to attracting private sector capital and investment into NESI, given the critical role of electricity as a major catalyst to economic growth.

- Ensure the **activation of differentiated energy consumption tariff** which takes into consideration energy provided, service and retail customer types with peak and off-peak price differentiate

Source: Mrs Funke Osibodu

Conclusions

All stakeholders need to **readjust, innovate, become energy and cost efficient** whilst driving complete end to end value chain (gas supplier, generation, transmission, distribution, consumers) to break-even sustainable level.

A coordinated and aligned policy and regulatory environment, with stakeholders' input and collaboration is critical.

A functional and improving power industry is key to a sustainable recovery from COVID-19 for the overall economy.

Generators with diesel fuel, and other alternative sources of energy are more expensive solutions compared to mainly gas based power industry. The industry should cover its cost to attract investments.

Customers should manage wastage with a higher cost of supply

Source: Mrs Funke Osibodu

Thank you


Questions
&
Answers
All

Temitope Yusuff
Director, Energy Utilities and Resources PwC Nigeria

Wrap up and close

Closing

As part of our **PwC Cares** **Covid-19 intervention,** we have set up a Knowledge Hub with insights to support businesses and governments in their response to the impacts of COVID-19

Visit our COVID-19 **Content Hub** at **www.pwc.com/ng/covid-19**

Access COVID-19 Resources on PwC Nigeria's **Tax 247 Mobile App** available on both Google Play Store and the Apple App store

Available on the App Store

GET IT ON Google Play

pwc

Thank you

This webinar has ended