

# CONSULTATION PAPER ON TARIFF REVIEW



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**BENIN ELECTRICITY DISTRIBUTION PLC**

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## **1. BACKGROUND**

### **1.1 *Introductory Background on this proposal***

In line with provisions of the Nigerian Electricity Regulatory Commission, the Multi-Year Tariff Order, 2012, (MYTO 2), was conducted in 2014. The purpose of the exercise was to establish and validate the existing level of the Aggregate Technical, Commercial and Collection losses in the power sector distribution chain and the amendments to be considered in the tariff in order to achieve a cost reflective tariff. The review resulted in revised tariffs that came into effect in January 2015 through a new tariff order (MYTO 2.1).

Following this and petitions by various consumer groups, the Nigerian Electricity Regulatory Commission (NERC) issued an amendment to the tariff order (MYTO 2.1), and further reduced the new tariffs. This implementation of amended MYTO 2.1 tariffs has further impacted the various Discos ability to meet their obligations to the power sector value chain (Generating Companies and Transmission Company). This is essential in order to restore confidence into the market and ensure the short and long term sustainable growth of the power sector, especially in meeting the expectations of increase in power supply by customers as well as meeting payment obligations within the value chain to the gas companies, generating companies and Transmission Company.

Discos have therefore been requested to apply to the Nigerian Electricity Regulatory Commission (NERC) to carry out a new tariff review to reach a realistic and workable cost reflective tariff in line with the EPSR Act 2005.

### **1.2 *Why have a consultative forum?***

This consultative process is to update customers on activities of BEDC so far. In addition, in order to ensure that adequate investments are made by BEDC and reconcile the requirements of a cost reflective tariff with customer's needs, it is necessary to ensure that customers are also carried along on changes expected from this a tariff review. BEDC is considering redesigning of the tariff (classification and rate structure) and setting up of a long term (ten years) tariff path that will smoothen tariff changes for its customers and ensure a mutually beneficial business relationship for BEDC and its customers. The consultative forum will thus update the customers on the happenings in BEDC as well as explain the proposal on tariff classification and rate review.

## 2. THE REALITY OF THE POWER SECTOR TODAY

### 2.1 What does privatization of the power sector mean?

Before November 1, 2013, the Power Sector was one company owned by the FGN. The privatization of the power sector resulted in 3 independent segments to the power value chain comprising of 6 Generation Companies; 1 Transmission Company; 11 Distribution Companies.

Effective November 1, 2013, the FGN handed over to private investors that won the bid for purchase for 6 Generating and 11 Distribution Companies. The Transmission Company remains Government owned.

For the whole of Nigeria, the Generation Companies, whom consumers do not see, have generated between 2300MW and 4500MW of electricity each day within this period. Thus when looked at from the takeover period, electricity generation, though still very low, has commenced an upward improvement trend.

The Distribution Companies such as BEDC are the front end companies which consumers see and often are held responsible for the shortage in electricity supply.

### 2.2 Current landscape and reality

NIGERIA		BENIN ELECTRICITY DISTRIBUTION COMPANY	
States-	<b>36 state +FCT</b>	State Involved-	<b>4 Edo, Delta, Ondo, Ekiti</b>
Local Govt-	<b>774</b>	Local Govts -	<b>77 with 1,500 rural communities</b>
Households-	<b>32 million</b>	Households -	<b>4.6 million</b>
Population-	<b>160 million</b>	Population -	<b>13.2 million</b>
Electricity Customers-	<b>4 million</b>	Electricity Customers-	<b>741,376</b>
Access to power –	<b>12.5 %</b>	Access to power –	<b>16.1 %</b>
Ideal Power Required -	<b>160,000 MW</b>	Ideal Power Required –	<b>13,000 MW</b>

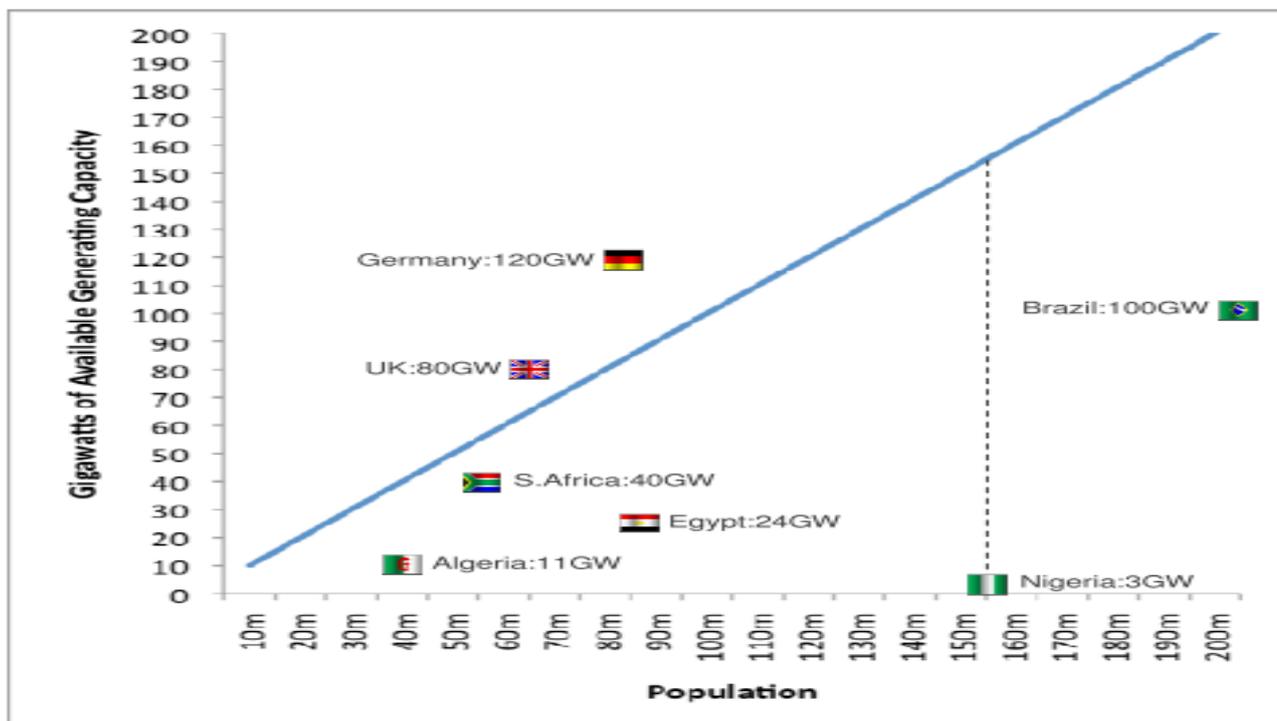
The power available in the country is currently being allocated in the following ratio to the distribution companies:

Abuja Electricity Distribution Company	12%
Benin Electricity Distribution Company	9%
Eko Electricity Distribution Company	11%
Enugu Electricity Distribution Company	9%
Kano Electricity Distribution Company	8%

Kaduna Electricity Distribution Company	8%
Ibadan Electricity Distribution Company	12%
Ikeja Electricity Distribution Company	15%
Jos Electricity Distribution Company	5.5%
Port Harcourt Electricity Distribution Company	7%
Yola Electricity Distribution Company	3.5%

### 2.3 Who is responsible for the lack of adequate power supply?

The historical problems, which lead to power shortage, are numerous. The participants in the value chain include the operators( Generating Companies, Transmission Company, Distribution Companies, Market Operator, NBET, etc.); the regulators ( NERC etc.); government ( Ministry of Power, BPE, Ministry of Finance , NCP, etc.), and the customers are collectively responsible for the effectiveness of the market. It is difficult and hardly the fault of any one entity in the value chain. The ideal amount of electricity to be generated according to best practice is 1000MW per one million people – which means ideally 160,000MW should be generated for a country like Nigeria DAILY. A sample of power generated compared with population in other countries is shown below.



The table below explains the graph above;

Country	Population	Available Generating Capacity	
Germany	85 million	120,000 MW	
United Kingdom	65 million	80,000 MW	
Brazil	201 million	100,000 MW	
South Africa	50 million	40,000 MW	
Egypt	85 million	24,000 MW	
Algeria	40 million	11,000 MW	
<b>Nigeria</b>	<b>160 million</b>	<b>4,000 MW</b>	

## 2.4 *Are the Generating Companies to blame therefore?*

No. In Nigeria, our main source for power generation is Gas and much like Oil, Gas must go through several processes before being converted to power. These processes cost money. The Generating Companies' funds are obtained when generated power is sold ultimately to the Distribution Companies, which means the amount of power that is generated is largely dependent on the amount of power that is usually sold and paid for by the customers.

## 2.5 *Power Availability – Is this “A Societal Problem”?*

Yes. Distribution Companies (Discos) have to pay the Generating Companies (Gencos) in full for power generated, yet are unable to collect money for all the power allocated to them from the grid because some of the power is lost largely through power theft. This means they (Discos) are operating at a tremendous loss and are consequently unable to pay the Gencos for the power generated.

The Generating Companies in turn resolve to generate less power – settling for an amount they can afford which is able to match the actual economic demand from the public so as to prevent further losses and pay its gas suppliers.

The price paid for the gas used by the generating companies is far lower than its true cost

## 2.6 *What contributes to the loss of Power?*

Distribution Companies face all sorts of challenges when generated power is received, some of these challenges include:

- Poor, aged and inadequate generation, transmission and distribution network and power infrastructure which result in leakages of power ( technical loss)
- Huge unpaid bills due to none payment for power by customers (collection loss)

- Illegal consumption of power by consumers who are not customers of the Discos (commercial loss)
- Bypass of meters by customers in order to reduce their power paid for (commercial loss)

All these translate into what is called Aggregate Technical, Commercial and Collection Losses (ATC&C). In Nigeria the ATC&C loss is an average of 50%, far high than most countries, due to the high level of poor payment culture. The inability of Distribution Companies to collect enough payment for services to the customers means that the value chain continue to be weak and customers continue to suffer from low power availability.

### **3. BEDC – OUR JOURNEY SO FAR**

In spite of the constraints in the system, some of the significant improvements made by BEDC include the following;

#### **3.1 METERING & ESTIMATED BILLING**

In order to support the DisCos' to ensure proper billing of energy customers based on actual readings, NERC introduced an assisted metering scheme for electricity meter deployment, known as Credited Advance Payment for Metering Implementation (CAPMI)

CAPMI is designed to assist Discos obtain advance funds from willing customers for meter purchase and Installation. These advance payments are subsequently refunded through a rebate on the fixed charge element of their electricity bills over time till the amount advanced for the meter is repaid to the customer.

BEDC has been commended by NERC for its position as a leading implementer of the CAPMI scheme. Over 70,000 meters have been installed so far in the last 18 months since the new BEDC Management took over in November 2013. This is commendable considering that about 190,000 prepaid meter were installed under PHCN over a period of 5 years (2007 – 2013) before privatisation.

In addition, efforts are also being made to clear up the meter gap resulting from payment for meters prior to privatisation by customers of PHCN, with no installation of these meters made as at privatization take over (Pre-Capmi metering gap). In this area, over 2,000 meters have been installed out of the approximately 2600 customers who has turned up with evidence of payments made to PHCN for meters. Enclosed herewith is a copy of the advertisement placed to invite customers with such claims for meters. The procedure in the advert continues to be relevant today.

In addition, efforts are on-going to ensure adherence to the 45 day Meter Installation policy is maintained. It should be noted that current metering gap (customers without meters) are estimated at about 300,000. This does not include non-customers (illegal consumers) of the company estimated to be at least 250,000. As we increase the level of prepaid meters, the problem of estimated billing will be reduced.

In the meantime BEDC has employed the use of independent accounting firms to review estimated billing, in order ensure correct billing and remove any excessive billings

#### **3.2 PAYMENT CHANNELS**

Prior to the privatization of BEDC, the only mode of payment available to customers of PHCN Benin was through the 22 cash offices of the company. Customers were thus forced to queue in the sun and the rain for hours in order to pay their bills. As these offices were not opened on Saturdays and Sundays, customers with prepaid meters who ran out of credit on weekends and needed power, were forced to be in darkness until the next working day.

Since the privatization of BEDC, we have expanded the payment channels to include all Bank branches through the Nigerian Interbank Settlement System (NIBSS) platform using Citi serve as the Aggregator. BEDC thus pioneered the introduction of payments through banks from any location in Nigeria. In Edo, Delta, Ondo and Ekiti, this meant that customers have an additional choice of over 1000 bank branches to pay from.

In addition, other payment channels such as POS, Scratch Cards, Online payments and payment through ATM machines will commence next month (in August).

### 3.3 **TECHNOLOGY**

The company understands that to serve the customer better, there is need to improve internal processes for better efficiencies and effectiveness. To this end, BEDC deployed a functional website and official corporate email for the use by staff and customers to improve communication (both internal and external). In addition, the company also deployed the CUG (Closed User Group) line for all staff to ease communication by staff cross our 4 states of operation and the head office.

To further improve its learning and knowledge management BEDC is currently deploying the Microsoft SharePoint Portal.

### 3.4 **CUSTOMER COMPLAINTS HANDLING PROCESS**

Benin Electricity Distribution Company (Benin Disco) covers four states in the Southern part of Nigeria. Our customer base is about 700,000 made up of largely residential customers. A number of activities are presently deployed to ensure customers have access to register their complaints and also to provide resolution and feedback to all registered complaints. With the deployment of technologically based customer complaints system, which is available 24/7, BEDC has handled and resolved over 31,000, customer complaints. Satisfactory testimony from customers include:

***We thank BEDC and its officials for the replacement of a failed 500kVA transformer that was replaced with (2 no) 300kVA***

Aramoko Community (Ido Ekiti, Ekiti State) September 2014

***‘Dear BEDC, First of all, I want to sincerely thank you guys for the response to the previous mail I sent, soon after you responded to my mail, power in that area improved, we than had light 3hours in the mornings, 2hours in the afternoon and 3hours at night, it was a big relief for our people, so I am saying a big thank you for all you effort to see that your customers are well served.’*** Andrew Ejoh (Benin, Edo State) July 2015

### 3.5 NETWORK IMPROVEMENT

Since takeover of BEDC in November 2013, major network improvements done include;

- 360KM of new line erected throughout the four states of operations to improve network and supply availability to our customer.
- Addition of 27 No. Injection Substations to improve power quality and reliability.
- 18 power transformers have been commissioned with a total capacity of 15.5MVA.

In spite of all of the above improvements, a lot of investments and money still needs to be spent across the value chain to achieve the dreams of our customer of providing 24 hours of power within the 4 States that we serve. This include:

- Ability to make full payments (through full cash collection) to Generating companies so that they can pay for Gas and increase power supply
- Ability for Transmission company to increase its capacity through more investments to take and transmit power generated to BEDC
- Ability for BEDC to expand its network through increased infrastructure and provide clean and affordable power to its customers. Investment is expected to be over N33billion within the next 5 years

In order to achieve the above, a cost reflective tariff regime needs to be put in place that will help to ensure that the investments required takes place soonest.

Elements that can favorably impact Energy cost include:

- Elimination of Energy Theft (*Meter Bypass, Illegal connection and reconnections etc.*)
- Prompt payment of full bills monthly
- Appropriate Metering of customers

## 4. TARIFF REVIEW PROCESS AND AREAS UNDER REVIEW

The purpose of this exercise (tariff review) is:

- a) To have a tariff structure that will allow for the significant investment needed to grow the power supply to customers significantly. Investments proposed in the next 5 years are in excess of N 33.4 billion. This include:
  - I. Metering of Customers – N20.5 billion
  - II. Network Work Refurbishment - N7.6 billion
  - III. Network Expansion – N4.27 billion
  - IV. Other Infrastructure – N1.02 billion
  
- b) To rearrange the customer tariff classes to be more reflective of consumption and affordability. In this regard, it is proposed that residential tariff classes be broken into 7 classes and not the current 4 classes. This will make the cost of power for the lower income and lower usage customers to be more affordable. Similarly commercial tariff classes will be broken up into 6 classes (currently 3 classes) in order to make it fairer for small shops and low consuming companies.
  
- c) To set prices that ensures BEDC can cover the cost of power purchased in order to ensure that there is adequate payment for power to generating companies. This will result in more power supplied by the generating companies.
  
- d) to set the price that is reflective of each type of consumer economic situation and consumption  
In doing so, BEDC is proposing that the following elements be considered:

### 4.1 PRICE REGULATION

The power sector is a regulated industry, the price a Disco can charge for the supply of power to its customers and the revenue that can be made are both regulated by the regulatory body – NERC.

BEDC does not receive any subsidy from the Government. Our revenue is derived from the tariff charged. The bulk of the total revenue made is used to pay for the energy receive through the grid (in other words, the Transmission companies – both Market Operator / NBET and the Generating companies). Presently, BEDC does not make/collect enough to pay fully for the cost of energy sold to the company.

A critical part of this exercise is to come up with tariff plan that allows BEDC - meet its cost of energy purchased and ensure that customers are well served whilst billing based on actual consumption and appropriate tariff class.

## 4.2 **TARIFF COMPONENTS**

The tariff is made up of the Fixed Charge and Energy Charge component.

If there is one issue that has been of major concern to most of our customers it has been the Fixed Charge and the request for removal of same. We have listened to our customers and our proposal is to ensure that the Fixed Charge Component be reduced over time as the industry grows and more consumers are converted to customers.

The **Fixed Charge** is largely utilised to cover the cost of infrastructure and capacity made available that enables power to be available to the customer cost. In other words, to ensure the members in the value chain (generation, transmission and distribution) are able to continuously provide and maintain their infrastructure and service for sustainability of the power sector.

The **Energy Charge** is the amount billed for the actual energy received and consumed by an electricity customer (charged in Naira per Kilo Watts Hour).

## 4.3 **TARIFF CLASSIFICATION**

In order to better satisfy customers and not mix customers of different consumption pattern, BEDC is proposing to further stratify its customers by:

- Separating low income/low energy consuming residential customers from middle level residential consumption and high level residential consuming customers. In this regard, residential customers category will increase from 4 to 7
- Separating small commercial customers from middle level commercial customers and large business commercial customers. In this regard commercial customers will increase from 3 to 6 classifications
- Further separating small industrial customers from mid-level industrial and large scale industrial customers. This category is also proposed to increase from 3 to 6 classification
- Further separation of small, medium and large special customers from 3 to 6 categories.

The below provides an idea of the proposed new categories

It is expected that the above elongated categories will help provide a more realistic tariff class across various levels

#### **4.4 INCREASING POWER AVAILABILITY/GENERATION**

As part of the process to significantly improve on power available to customers BEDC is already arranging various embedded generation/ off grid projects which will lead to purchase additional energy that will be developed within its distribution area to ensure more availability of electricity supply. The four States are expected to be covered by this increased embedded power within the next 2 years with some locations taking off from 2016.

The target is to increase available power for BEDC paying customers in the near future.

#### **4.5 TARIFF RATE DESIGN**

Although a tariff review is inevitable, BEDC is aware of all the economic problems in the country and because of this is willing to determine fair tariffs (pricelist) that consumers can pay at their different societal grades (customer category).

In consideration for a fairer pricelist, consumers must also resolve to pay their electricity bills and desist from all acts of power theft.

The proposed revised rate design by BEDC intends to revise the Fixed Charge as well as Tariff Categories to ensure that the customer pays a price closer to its customer category (societal grade) and actual consumption.

## 5. KEY FREQUENTLY ASKED QUESTION BY CUSTOMERS

### 5.1 *Why is the price of electricity been reviewed?*

The price of electricity in the past has not been fully able to cover the cost incurred by members in the value chain (Genco, TCN and Disco), this led to the huge debt owed within the value chain.

From takeover, the major issue was the losses incurred by people using electricity and not paying for it / partially paying for actual consumption and also the fact that the customer were not classified correctly.

BEDC has envisaged this and will reduce the losses by ensuring massive investments as well as mobilization of more resources to aid collection. These investments and resources will affect tariff.

The proposed tariff review will support the undertaking of massive investment in metering and network improvements as well as provide adequate pricing for purchasing of additional power

#### ***When will I enjoy 24/7 power supply?***

Currently, BEDC receives electricity from Transmission through the Grid, Transmission receives energy from the Generating Companies and transmits to Distribution companies, Generating companies purchase gas from the Oil & Gas companies to produce electricity which they pass on to Transmission.

In addition, BEDC intends to buy power from embedded and off grid generation.

To ensure 24/7 power supply all members in the value chain must be paid fully for the services they render. This means customers must pay their bill regularly and promptly to enjoy for an increase in power supply.

24/7 power supply is possible in the long term, with major improvements in the short term.

### 5.2 *Will I continue to pay for fixed charge?*

Yes, depending on your classification. However, our proposal to review tariff will ensure that the amount of fixed charge you pay may gradually reduce over time as more power is available and significantly better paying culture exists.

### **5.3 Will the price of electricity be reviewed again?**

Yes, however our tariff proposal is a 10 years plan with a smooth increase path in such a way that the deficit of the tariff in the earlier years is subsidized by the tariff in the later years when power supply would have increased. The customers will be aware of the ten years plan to make it easy for customers to plan for same.

### **5.4 What will I gain from a tariff review?**

You stand to gain improved power supply as an individual or business directly and indirectly through;

- Improved standard / quality of life
- Existing businesses will be able to grow better
- More jobs will be created
- The country will attract more foreign and local investors
- more industries will emerge

### **5.5 How do I report a fault in my area and get quick attention?**

You can report fault by contacting our Customer Complaints Unit through any of the following channels, where your complaints is logged into our automated system and complaints ticket is generated;

- Walk into the business unit closest to you and meet with our Customer Care Officer who will log your complaints and give you complaints ticket
- Call our dedicated Customer Care line on 08039012323 and speak with agents who will collect information from you and give you complaints ticket.
- Visit our website [www.bedcpower.com](http://www.bedcpower.com) and complete the customer complaints form, you will receive a response and your complaints ticket.

There are key performance timelines set for each type of complaint so as to enable fast turnaround time in solving these

## CONCLUSION

This Consultation Paper aims at updating the customers on BEDC activities so far as well as update on critical changes likely in the near future in order to better serve the customers and provide improved power. Comments on this document can be sent:

Via email to:

[customerconsultation@bedcpower.com](mailto:customerconsultation@bedcpower.com)

In writing to:

**MD/CEO**  
**Benin Electricity Distribution Plc**  
**5, Akpakpava Road**  
**Benin City**  
**Edo State**

Completing the Feedback Form on our website:

[www.bedcpower.com](http://www.bedcpower.com)

You can also call us on **08039012323** for further clarifications where needed.