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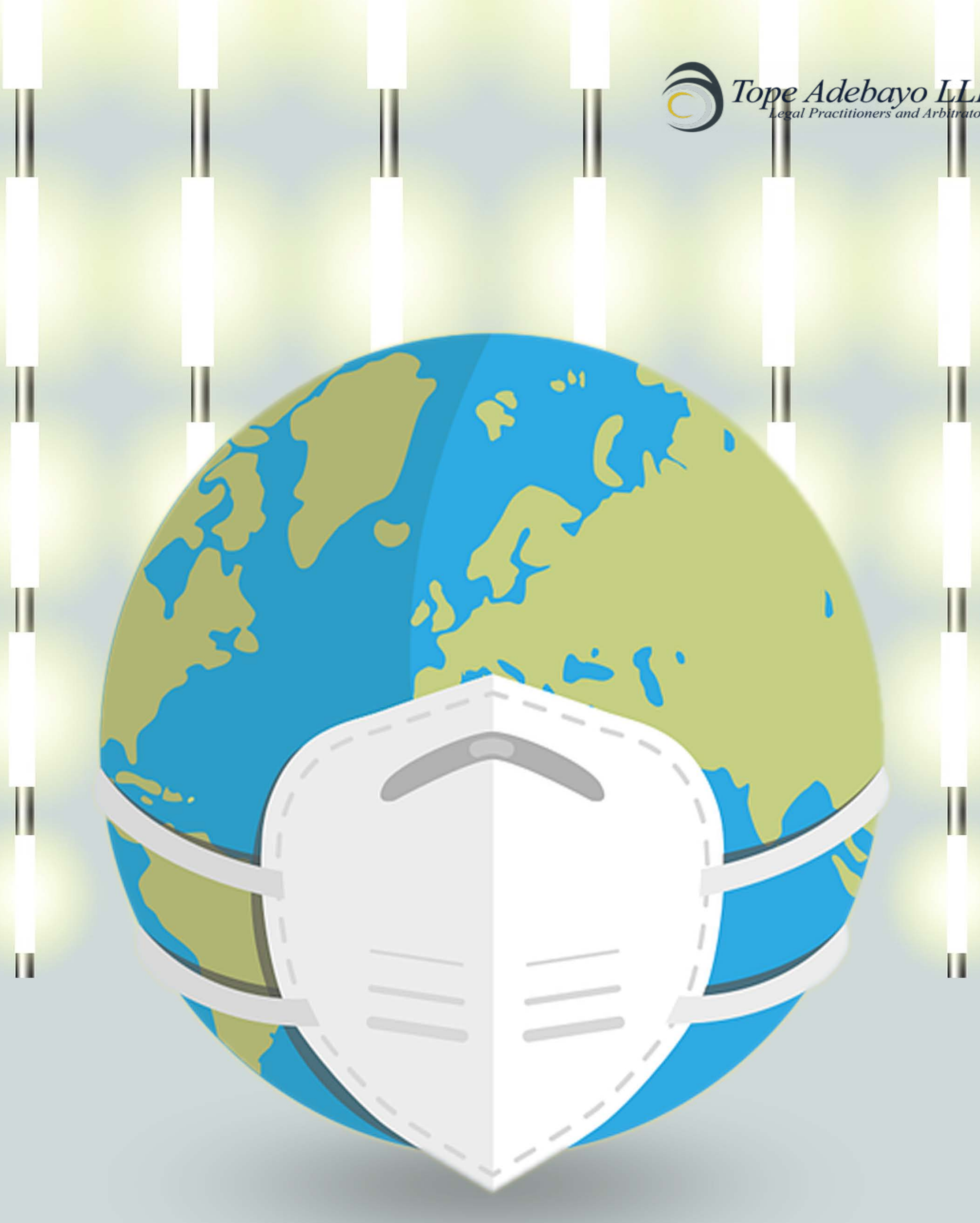

COVID-19: A CRITICAL ANALYSIS OF THE FEDERAL GOVERNMENT'S PROPOSAL TO SUPPLY FREE ELECTRICITY

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INTRODUCTION

Recently, the House of Representatives proposed a stimulus bill to facilitate the free distribution of electricity to Nigerians for two months as part of the Federal Government (FG)'s socio-economic response to limit and alleviate the human and economic impact of the Covid-19 pandemic. Other countries such as Ghana and the Democratic Republic of Congo have adopted similar measures. However, the Nigerian Electricity Supply Industry (NESI) is peculiar and such proposals would naturally raise numerous questions, the most obvious ones being; who would bear the cost? Would the free electricity be enjoyed by all Nigerians or just a particular group? What quantum of electricity would be supplied to the beneficiaries: same as other Nigerians? How would this be measured bearing in mind that most households and businesses are yet to be metered? When would the measure become effective? After expressing support for the measure on the condition that the FG foots the bill, the Distribution Companies (Discos) through the Association of Nigerian Electricity Distributors (ANED) later announced an agreement with the FG to provide free electricity to Nigerians for two months. However, the details of implementation are to be determined subsequently. The Discos are not the only players in the electricity supply value chain. Any agreement to suspend tariff collection must necessarily involve all stakeholders from generation to distribution to transmission. Also, the proposal must be creatively structured to navigate the liquidity problems currently plaguing the Nigerian power sector. As they say, the devil is always in the details.

CURRENT INDUSTRY CHALLENGES

The most obvious challenge to the proposal is the liquidity crunch in the power sector. Today, the Generation Companies (Gencos) claim over N1 trillion in accumulated debts from the Nigerian Bulk Electricity Trading Company (NBET). The Discos on their part are unable to fulfill their financial obligations to NBET due to very high aggregate technical and commercial losses (ATC&C) and tariff shortfalls. To put things in perspective, Discos and Gencos have consistently declared huge losses since the privatization exercise in 2013 despite the introduction of a supposed cost reflective tariff system through the Multi Year Tariff Order (MYTO). Also, the NESI has huge outstanding loan obligations to the Central Bank of Nigeria (CBN) under the Nigeria Electricity Market Stabilization Facility programme and to numerous other financial institutions. As things stand with the effect of Covid-19 on the financial capacity of Nigerians, the NESI will undoubtedly face financial challenges related to greater difficulties by the Discos in tariff collection for unmetered customers particularly considering the fact that many Discos are suspending disconnection of owing customers during this period and at the same time striving to supply stable electricity to make the lockdown more bearable for citizens. The effect of this will become more obvious once the lockdown is over and life goes back to some level of normalcy. No doubt the Discos are bound to record very high collection losses.

When all is put together, the difficulty faced by the NESI in conceding to a two-month hiatus on tariff payments becomes apparent. Beyond the Discos and Gencos, other interests to be considered are those of the respective creditors and unpaid contractors. It is doubtful whether the Discos can solely enter into an agreement with the FG to suspend tariff payments without the concurrence of other stakeholders in the NESI value chain and a clear program of how the FG would disburse timely payments across board. Of particular concern is payment for gas supplied to the Gencos for power generation.

. It does appear that the FG is taking steps to address this situation as we understand that pursuant to the FG's recent approval of about N200 billion to boost supply of gas to the power sector for the next few months, a gas supply agreement has been entered into among the Nigerian National Petroleum Corporation (NNPC), TCN and the Gencos with the NNPC disbursing N220 billion to gas suppliers in order to ensure consistent gas supply to the Gencos during this period. Beyond the few months' payment, for how long would the FG be able to keep this up especially if the palliative measure does not kick in until another couple of months down the line? Electricity consumption is already heavily subsidized by the FG.

Under the Power Sector Recovery Plan (PSRP) the FG pays the shortfalls in tariff to the Discos. As at 2017, the tariff shortfall owed to the Discos was estimated to be about N458 billion, today it is estimated to be over N500 billion. The Discos have maintained that the government's failing in this regard is partly responsible for the cashflow and liquidity difficulties they face. The government is also facing severe budgetary constraints, which has been worsened by the economic implications of the Covid-19 pandemic. Sharp drops in global oil prices, huge cost of managing the pandemic and the looming economic recession have forced the government to adjust fiscal benchmarks and implement budget cuts to reflect economic realities. Again, when all these are considered, it does not sit well in logic for the FG to undertake the expensive venture of financing free delivery of electricity for any length of time.

According to data from NBET, the Discos' invoice value for the total cost of electricity distributed for the month of November 2019 was N53,500,536,476.19 . For December 2019 the invoice value was N62,252,549,885.43 , while that of January 2020 which is the latest available figure, was N52,134,588,489.19. Following this trend, the cost of distributing free electricity nationwide for a period of two months is projected to be above N100 billion at least. Of course we are aware that it is highly unlikely that measure will apply to all citizens, thus bringing down the projections considerably.

We've seen statements from the Speaker of the House of Representatives to the effect that the supply of free electricity is targeted at "the very vulnerable households". Words like the "poorest" have also been used in referring to the proposed beneficiaries of the palliative. The benchmark to be used in determining who qualify as "poor and vulnerable Nigerians" is however not clear. Are these limited to poor households or would certain categories of micro businesses be considered?

ESTABLISHMENT OF A JOINT IMPLEMENTATION COMMITTEE

Amidst these uncertainties, the House of Representatives announced the setting up of a stakeholders' joint implementation committee to look into the modalities for the execution of this palliative. The committee's mandate include working out the modalities for execution, identification of Nigerians qualified to benefit from this measure, the number of households connected to the national grid as well as measures to ensure regular supply to Nigerians after the Covid-19 crisis. It would be interesting to see what they come up with.

An interesting observation for us during the deliberation is the issue of the Power Consumer Assistance Fund (PCAF) raised by Honourable Gbajabiamila. The Speaker alluded to the fact that the PCAF is non-existent. A little analysis of the PCAF will help put the Speaker's concern into perspective. Section 83 of the Electric Power Sector Reform Act, 2005 ("EPSRA" or "Act") provides for the establishment of the PCAF to be used to subsidise underprivileged power consumers as specified by the Minister of Power. The PCAF shall be funded with contributions from (i) eligible customers as declared by the Minister of Power ; (ii) categories of consumers able to bear the burden of such contributions; (iii) subsidies received from the FG as appropriated by the National Assembly.

From all indications, indeed the Nigerian Electricity Regulatory Commission ("NERC" or the "Commission") is yet to implement the PCAF which would have come in handy at this time to subsidise underprivileged consumers, the same measure now being sought to be implemented by the FG. Recall that the EPSRA was enacted in 2005. Fifteen years down the line, the PCFA, one of the major Funds established by the Act is yet to be implemented. This of course is a testament to the various issues plaguing the industry.

It is worth noting that two documents on NERC's website point to the fact that as far back as 2012, efforts were being made to implement the Fund. One of the documents is a Terms of Reference (TOR) for Consultancy Services for Implementation of the PCFA whilst the other is a Request for Proposal (RFP) for the engagement of a firm to support the Commission in the development of process and procedures for the setup of the PCAF. We are left to guess at this moment as to why the process was stalled. We note also that the scope of work under the TOR includes the definition of eligibility for the PCAF, the qualification of beneficiaries and the determination of different classes of under-privileged customers amongst others, which is more or less part of the TOR of the joint implementation committee discussed above. It might be instructive for the Committee to consider the strategy proposed by NERC to be employed by the consultant under the TOR, in identifying qualified beneficiaries in particular Nos. 1,2,3,4 &5 of the strategy.

CONCLUSION

Whether or not the FG proceeds to implement this palliative measure, emphasis needs to be placed on ensuring improved power supply nationwide. Power supply within the country is epileptic and the industry suffers an infrastructural deficit which includes a 60% metering gap that needs to be addressed urgently. In the interim, measures must be put in place to ensure constant power supply to hospitals, isolation centers and other health facilities. The ongoing efforts of the Rural Electrification Agency to ensure constant power in hospitals and isolation centers should be supported with more funding and better coordination. In addition, to ease the fiscal burden, the government needs to collaborate with all stakeholders in the NESI to agree on and properly allocate the burden of cost and margins in the supply value chain.

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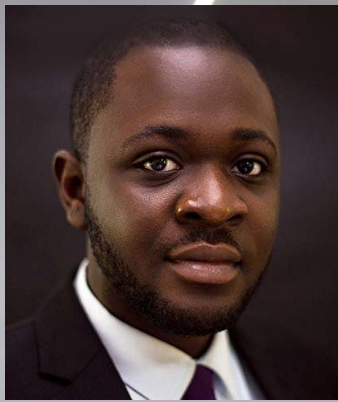

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