



DETAILED CONSULTATION
ON OUR PROPOSED
TARIFF REVIEW

August 2015

**RESPONSES TO THIS CONSULTATION
ARE DUE BY SEPTEMBER 4, 2015.**



IBEDC

IBADAN ELECTRICITY DISTRIBUTION COMPANY (Plc.)
...Distributing Power, Changing Lives

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1. KEY MESSAGES

Why do the prices need to be reviewed again?

In the past, electricity prices have been lower than the costs of running the electricity businesses. This is why not enough money has been spent improving power supply. We have all suffered.

The prices 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 old wires 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.

We made promises to make things better when we took over the company. In return, we were promised that the prices we charge you for electricity will cover all our costs.

At the moment, our prices don't cover all our costs. That means we have no money left over to spend on keeping our promises. It also means we can't pay Generation Companies (GenCos) all the money they need to supply more electricity.

When will I get more electricity?

We get your electricity from Generation Companies (GenCos), who are independently owned. By making sure we pay their bills, we hope they can fix old Power Plants and give us more electricity. We also want to sign up GenCos in our area and nationally. We can't directly control how much electricity we get, but we will do everything we can to get as much electricity as possible to you.

More electricity is important for all of us. If we get more electricity, we can deliver more electricity to our customers and collect more money from people who don't pay, we will be able to meet our obligations.

Does that mean electricity prices are going up now?

We have come up with principles for how we will set prices to be fair to our customers.

We don't set our prices on our own. We are regulated by the Nigerian Electricity Regulatory Commission (NERC), who will decide if what we ask for is fair for all our customers. To make sure we get this right, we want to hear what you think.

To cover the money we will lose, we will endeavour to keep our costs low and to cushion the effect of this review we will spread our tariff review over a ten year period. After 10 years prices will be reviewed and we hope to be able to reduce prices.

We will still be losing money for a few years. But we can keep our promises to install meters and connect customers.

We think this is fair for everyone.

Our principles for a fair price review

- Even though we are losing money, we will only marginally increase our prices now.
 - After 10 years, prices will be reviewed and we hope to be able to reduce prices.
- To recover the money we will lose, we will spread the costs over 10 years.

Making our bills fairer

- Over the next five years, we will reduce fixed charges and install more meters, so you will pay based on the measured electricity you receive.
- Bills for larger business customers will be linked to the way they use power by charging for maximum demand as well as the total electricity they use.
- We will improve the way we define types of customers, so we charge you all fairly.
- We will still charge the very poorest the least, but will check that all customers paying low prices now are really the ones who need it most.

Might prices change again after this review?

Our principles will stay the same for 10 years however there will be a full tariff review after 5 years, prices may change at that point.

There will be two smaller reviews each year to include changes we can't control, like fuel prices, inflation, exchange rates and electricity generated.

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 September 4, 2015.

2. BACKGROUND

In the past, electricity prices have been lower than the costs of running the electricity businesses. This is why not enough money has been spent improving power supply.

The prices 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 old wires 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.

We made promises as part of a Performance Agreement to make things better when we took over the company.

Over 5 years we promise to

Install new
meters

Connect new
customers

Reduce ATC&C losses
in our area

In return, we were promised that the prices we charge you for electricity will cover all our costs.

In return for us agreeing to meet these obligations under the Performance Agreement, we were promised that the prices we charge our customers for electricity will cover all our costs. This is part of the Electric Power Sector Reform Act, 2005 (EPSRA) that requires NERC to formulate a credible and cost reflective tariff.

At the moment, our prices don't cover all our costs. That means we have no money left over to spend on keeping our promises. It also means we can't pay GenCos all the money they need to supply more electricity.

We don't set our prices on our own. We are regulated by the Nigerian Electricity Regulatory Commission (NERC), who will decide if what we ask for is fair for all our customers. NERC has agreed with Discos to give a new tariff review to ensure a workable cost reflective tariff that will restore confidence in the market to all stakeholders.

We have come up with principles for how we will set prices to be fair to our customers. We have come up with an approach that means we hope our prices will stay near what they are now.

To make sure 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

The challenges for the electricity sector include:

- **Electricity Supply:** Not enough electricity is supplied to us which means we cannot totally meet our customers' needs,
- **Transmission Network:** An old and weak transmission network (the national wires and other equipment that deliver electricity), which means GenCos can't always get their electricity to our area,
- **Fuel shortage:** Many Power Plants rely on gas to generate electricity, but there are shortages in the supply of gas that mean GenCos don't generate as much electricity as they could,
- **Distribution network:** Our distribution lines (our local wires and other equipment that deliver electricity)

are also old and needs repair and expansion.

- **Electric theft and high non-payment of bills:** stealing electricity and not paying your bills severely hinder our ability to pay our bills to the Gencos and make the investments in our network necessary to deliver power to you and give you great customer service.

The main reason behind these challenges is that for very many years not enough money has been spent to keep every part of the system repaired. It will take many more years before supply is as good as we need. We all need to work hard to make sure that this happens as quickly as possible.

We get your electricity from GenCos, who are independently owned. By making sure we pay the GenCos bills, we hope they can fix old Power Plants, get more gas, and give us more electricity. We also want to sign up new GenCos in our area and nationally. We can't directly control how much electricity we get, but we will do everything we can to get as much electricity as possible to you.

4. THE TARIFF REVIEW PROCESS AND AREAS UNDER REVIEW

4.1. How our prices are regulated

Electricity supply is a regulated sector and the amount of revenue that we can and the prices we can charge are capped and regulated by NERC.

The revenue we are allowed by NERC is based on our investment plans to improve supply and the cost of running our business (our two biggest costs each month are paying the GenCos for the electricity they supply and paying our staff for the work they do). At the moment we don't even get enough money each month to meet these bills. That means we don't have any money left over to invest to improve supply.

We do not get any subsidy from Government, so the only way we can cover these costs is through the tariffs we charge you. This is why we need cost reflective tariffs to help us meet our promises in the Performance Agreement and improve our supply to you.

The purpose of the 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.

Many of the forecasts that go into the calculation of the tariff are provided by NERC and are standard for the industry. These include expectations for inflation, foreign exchange rates, gas prices, cost of generation, and many more. Importantly, NERC will also give us a forecast for the expected increase in generation over the next 10 years.

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 for everyone

We have come up with principles for how we will set prices to be fair to our customers. We hope our prices

will stay near the same as they are now.

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

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. However, we know that the prices today are already hard for some of our customers to pay.

We are therefore proposing a “sculpted” tariff regime spread over 10 years.

Even though we are losing money, we will only marginally increase our prices now. To recover the money we will lose, we will spread the cost over 10 years.

After 10 years prices will be reviewed and we hope to be able to reduce prices.

It is important to note that although we will keep prices at the rates NERC approves for us in advance, prices may go up or down sometimes to reflect changes in the economy that we can't control, like inflation and fuel prices.

Our business will still be losing money for a few more years, but we can keep our promises to install meters and connect customers because you agree to pay our revised prices. This funds will help our carry out our obligations to you. We think this is fair for everyone.

4.3. Tariff components: the Fixed Charge

Over the next 5 years, we will reduce fixed charges, so you will pay based on the measured electricity you receive.

The tariff is made up of the fixed charge component and the energy charge component.

The **energy charge** is the amount billed for the actual energy delivered and consumed by an electricity customer per kWh (kilo watt hour).

The **fixed charge** is an element of an electricity customer's electricity bill that is charged on a monthly basis.

The fixed charge is intended to partly cover our fixed costs. Most countries around the world have a fixed charge. The fixed charge is necessary to ensure the sustainability of the industry and drive investments.

However, we know the fixed charge has been unpopular with some of our customers. We therefore propose to gradually reduce the fixed charge for all customers over time. The fixed charge will go down, and our energy charge will go up relative to now.

4.4. Tariff components: maximum demand

Bills for larger customers will be linked to the way they use power by charging for maximum demand as well as the total electricity they use.

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.

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.

Our tariff application will introduce additional charges called “kVAR” 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

The prices in the past did not cover all the cost of losses.

We made promises to reduce ATC&C losses in our area when we took over the company.

Our report to NERC will provide evidence of our actual losses. Once we have a sustainable long term tariff, we will invest to reduce these losses.

All customers can help by paying for the electricity we supply you, reporting incidences of electricity theft and any fraudulent behaviour on the part of our staff providing services to you on behalf of our company.

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. Generation

We get your electricity from GenCos, who are independently owned. By making sure we pay their bills, we hope they can fix old power plants and give us more electricity. We also want to sign up new GenCos in our area and nationally. We can't directly control how much electricity we get, but we will do everything we can to get as much electricity as possible to you.

We recognise customers' frustration with shortages in power supply and the associated negative consequences. The generation challenges have led us to consider the procurement of additional power through embedded generation, which will mean new smaller local Power plants, so we don't rely so much on the national network. Sometimes this generation costs more, because the units are smaller.

We intend to purchase additional energy from embedded generation projects to distribute to our customers to help reduce the time gap needed for getting energy from the grid. Embedded generation will be a quick way of getting more supply in the short term. It will cost a little more, but we will use a competitive process to get the best value possible. We will ask NERC to include allowance for this in our tariff.

4.7. Load Allocation Rebalancing

In electricity distribution, every customer belongs to a particular tariff class. The amount that we assume is consumed by each class will affect the revenue we are expected to collect and therefore the tariffs. An accurate load allocation is necessary to make this calculation as close to reality as possible.

Our report 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.

4.8. Rate Design/Customer Reclassification

We will improve the way we define types of customer, so we charge you all fairly. We will still charge the very poorest the least, but will check that all customers paying low prices now are really the ones who need it most.

The tariffs are currently designed so that the poorest customers pay the least (tariff categories R1 and R2). That means that the other customers (larger residential and commercial) are paying a bit more to subsidise and support the poorest.

We want to keep this principle.

However, sometimes customers were assigned to this category in the past that don't need it as much.

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 new tariff categories.

We will also make sure over time that all customers are assigned the right class, and that all our other customers are only subsidising those who really need it the most.

4.9. Customer numbers

The current tariffs do not accurately reflect the current number of customers and the way we expect customer numbers to grow.

We intend to undertake a customer enumeration exercise with the aim of classifying our entire customer population, enabling a true reflection of our customer numbers and its growth pattern that will be factored into the tariffs.

This will also help us develop an accurate customer database and improve our customer service to you.

4.10. Revisions to expected operational and capital costs

The capital and operational costs currently provided for in the regulated prices were decided before we took over the business, and don't exactly reflect our full investment plans.

We think 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.

We will be asking NERC to consider revised capital and operational costs that match our investment plans.

4.11. Review process within the 10 years

NERC will review our submissions and allow us a tariff pathway over 10 years.

Throughout those 10 years, NERC will continue to regulate us and see that we keep all our promises to you.

Our principles will stay the same for 10 years. However, there will be a full review after 5 years to make sure everything is working as it should do.

There will be two smaller reviews each year to include changes we can't control, like fuel prices, inflation, exchange rates and electricity generated.

This means that although we keep prices the same in “real” terms, prices may sometimes go up or down to reflect changes in economy that we can't control, like inflation and fuel prices, but hopefully your income will keep pace with those changes over time.

5. HOW YOU CAN HELP US!

Our goal is to reach a successful electricity sector, with electricity whenever you need it.

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

We have made promises to improve our service to our customers. We also want promises from you in return for connecting to the network.

We ask you to:

- **Pay your electricity bills on time**
- **Report anyone working for our company who does not meet our standards of behaviour or behaves in a fraudulent way,**
- **Report anyone you suspect of electricity theft, and**
- **Report anyone you suspect of tampering with our equipment, such as meters, transformers, poles, etc.**

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.

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

- **Stealing of electricity constitutes an offence of a felony with penalties including imprisonment under Section 400 of the Criminal Code, and**
- **Tampering with electric plant, works, fittings, etc. constitutes an offence under the Miscellaneous Offences Act, with penalties including imprisonment for a term of 21 years or life (Section 1 (9) and (10)).**

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

6. LETTING US KNOW WHAT YOU THINK

We welcome comments from our customers (Residential, Commercial, Industry, special organizations), customer associations, local and state government, or anyone who has an interest.

You are invited to present your comments to this consultation paper within two (2) weeks following its publication. Please give us your comments by **September 4, 2015**.

6.1. Talk to us!

You can let us know what you think about our proposals for the tariff review through these channels:

Post: IBEDC, Capital Building, 115 MKO Abiola Way, Ring Road, Ibadan, Oyo State. PMB 5388, Ibadan

Email: customercare@ibedc.com

Call/SMS: 09039000065

Facebook: www.facebook.com/ibedc.ng

Twitter: @ibedc_ng