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TWO YEARS AFTER THE METER ASSET PROVIDER REGULATION (2018): TAKING STOCK

INTRODUCTION

The regulatory framework on Meter Asset Provider (Regulation) issued by the Nigerian Electricity Commission (NERC) came into effect on 8 March 2018 and became enforceable on 3 April 2018. The Regulation seeks to encourage the development of independent and competitive meter services, eliminate estimated billing practices, attract private investment for the provision of metering services, close the metering gap through accelerated meter roll out and ultimately enhance revenue generation and improved customer service in the Nigerian Electricity Supply Industry (NESI).

Distribution companies were mandated to appoint or contract meter asset providers (MAP) who would have the responsibility of providing metering services which may also include meter financing, procurement, supply, installation, maintenance and replacement. This is to enable distribution companies (Discos) focus on their core business which is the distribution of power while meeting their metering target through alliance with third party MAPs.

Meter Assets Providers

The MAPs are companies selected after applying to the NERC for licenses to operate as a MAP. Upon receipt of the applications, the NERC conducted due diligence on the applicant and issued a No-Objection which enabled them to participate in the procurement process. Thereafter the Discos requested bids from the MAP and upon evaluation of the submissions entered into a Meter Service Agreement (MSA) with the successful bidder(s) for the provision of metering service. With this procedure, 108 MAPs were licensed and a total of 22 were contracted by Discos to provide metering service.¹

In order to promote local content development, the MAPs are required to source a minimum of 30% of their contracted metering volumes from local meter manufacturing companies. This implies that at least 30% of the metering requirements of the NESI will be met by the Nigerian domestic market.

¹ <https://www.nigeriaelectricityhub.com/2020/03/30/why-five-million-metering-gap-may-persist/>

Success of the Regulation

The NESI has witnessed an increase in the number of registered customers on the billing platform used by Discos due to the on-going customer enumeration exercise undertaken by Discos. This exercise involves technical audit of the company's assets and data capturing of existing and prospective customers, in line with the objectives of the Regulation to improve quality of power supply and reduce estimated billings.

Through the exercise, illegal consumers of electricity were discovered and registered while persons who had previously consumed electricity through illegal connections were also exposed. The 2019 3rd Quarter report released by NERC revealed that the number of registered and metered customers increased by 8.93% and 1.65% respectively, an increase which NERC attributed to the roll-out of meters under the Meter Assets Provider (MAP) scheme. According to the report, Abuja and Benin Discos had metered more than 50 percent of their registered electricity customers as at the end of September 2019.



Challenges of Metering Obligations under the Regulation

The implementation of the Regulation has resulted in considerable success in bridging the metering gap of 4,740,275 consumers as at 31 December 2017. However, there is still much skepticism about the possibility of the complete achievement of its objectives before the 31 December 2021 timeline, due to some of the challenges identified below:

1. Regulatory challenges

“The prices approved by NERC for single phase and three phase meters under the MAP framework, are N36,991.50 and N67,055.85 respectively, ² exclusive of the 5% Value Added Tax (VAT). This uniform price was fixed by NERC without considering the different pricing assumptions by MAPs during the competitive procurement process nor the varying technical specifications for meters required by the Discos. Indeed, the current currency devaluation coupled with the 35% increase in import duty may also have made the fixed meter prices unsustainable.

² <https://ekedp.com/page/OrderMeter>

The NERC capped the interest rate on meters supplied to customers at 21% over a period of 10 years. This is against the background that the MAPs would rarely get access to long term financing for the project and loans are also priced at a high interest rate, sometimes as much as 21%. The implication of this for the MAP is a huge erosion of value.

2. Fiscal challenges

In July 2019, the Ministry of Finance increased the import duties on electricity meters from 10% to 45%. This additional 35% has negatively impacted the activities of the MAPs as it has increased the cost of doing business and affected the dynamics of their existing contracts such as financing and supply contracts. It has also thrown a log in the wheels of the possibility of closing the metering gap in the country within the scheduled timeframe.

Nigerian seaports are rated as one of the most expensive to do business in the west African region³, judging by the fact that imported cargoes, especially containerized ones, stay for longer days in port terminals before importers can obtain the needed authorization to move the containers to their warehouses. With the outbreak of the Corona virus and government's directives to curb the spread, the ports maintained skeletal activities. This also contributed to the congestion in the port and further impacted on the ability of the MAPs to clear the meters at the port for supply to the end users.

Local meter assembling factories are required to obtain waiver letters from the Ministry of Finance for each import of component parts for assemblage. The waiver process usually takes between two months to one year and involves a cumbersome documentation process. This process must be repeated on every occasion the assemblage factory wants to import semi knocked down (SKD) meter parts. As a result of this, SKDs cannot get components to couple in time, leaving them with little or no meters to distribute.

One of the key objectives of the Regulation is to encourage the development of independent and competitive metering service in the NESI and to attract private investment in the provision of metering services. The Regulation unbundles the Discos by re-allocating the responsibility for providing metering services to the MAPs, without any fiscal incentives such as tax waivers, access to long term and low interest rate finance etc. from the Government. The MAPs are also exposed to exchange rate volatility as well as huge cost of importation, transportation, logistics etc.



3

<https://www.thisdaylive.com/index.php/2020/01/28/nigerian-ports-most-expensive-in-west-africa-says-minister/>

3. Technical Challenges

Whilst the Regulation mandates the Discos to contract the MAPs for the provision of meters to the consumers, it did not specify the metering standards or the type of meters to be supplied by the MAPs. Thus, each Disco is at liberty to specify the design, engineering, manufacture, testing of the meters to be supplied by the MAPs. With this variance, the MAPs are unable to benefit from the economies of scale that comes with purchasing uniform products in bulk as they must order different types of meter for each Disco they have a supply contract.

One of the technical challenges being experienced by the MAP is the readiness of the meter end-users for installation of the meters. Many customers are not ready to be metered because they do not have suitable locations for the meters, they have wires and cables crisscrossing each other or having wrong electrical wiring which require fixing before the meters can be installed. Installation for these types of customers are more costly and time intensive.

The Discos have the obligation to enumerate their customers to provide the correct data for the MAPs to operate. To this day, no DisCo really knows the actual number of customers that are unmetered under their network and their metering requirement. This gap in data is a challenge to the MAP for planning purposes. MAP have had to undertake the enumeration of customers at a cost which was not initially factored into the cost of the meter and there is currently an uncertainty about the party who bears the extra cost that the MAP incurs in this regard.

Another challenge facing the MAPs since the introduction of the Regulation includes dearth or scarcity of trained personnel for the purpose of installing and repairing faulty meters. This makes it difficult for MAPs to meet the requirement for faulty meters to be repaired or replaced within two working days and as such many faulty meters are not repaired and customers have no replacement when removed because there is shortage of technicians.

The Discos' primary responsibility is to facilitate the supply of power to customers using its distribution network. It is also responsible for ancillary services such as the operation and maintenance of the distribution network and customer connection. However, the NESI has been beset with dilapidated and poor network infrastructure such as fallen poles, phase imbalances and erratic power supply, which has resulted in huge investment losses for the MAPs. This deficit in the network infrastructure has also made monitoring of meters and electricity consumption difficult and allows customers to continue to get away with energy theft.

4. Logistical Challenges

Under the Regulation, MAPs are required to source for a minimum of 30% of their contracted metering volumes from local meter manufacturing companies in Nigeria.⁴ This initiative was supposed to encourage local production of meters and generate revenue for the government, unfortunately, what exists mostly are local meter assembly companies, who basically import and assemble SKD meter parts.

⁴ Meter Asset Provider Regulation, 2018

Due to the shortage in local meter manufacturing capacity, the MAPs have had to resort to importation from China, which is one of the major manufacturers of meters. The estimated average time frame for the importation is 4 months (excluding delays to clear the meter shipment in Nigeria). The COVID-19 pandemic has considerably slowed down activities in China, making it difficult for MAPs to import meters and this has adversely impacted on the availability of meters to end customers.

Companies with meter assembly plants require permits and licenses from SON, NERC and NEMSA and other regulatory agencies. The timeframe for obtaining the required permits and licenses for the establishment of meter assembly plants takes at least 6 months to 2 years due to regulatory bottlenecks. The length of time required, and the regulatory bottlenecks are discouragements to foreign investors who may wish to invest in meter assembling.

As a result of the COVID-19 pandemic and the attendant government directives, the ability of the MAPs to carry out their obligation of meter supply under the Regulation has been impacted. Essentially, with the government directives to curb the spread of the pandemic, the 10 days' timeline for metering a customer after payment is difficult and impracticable for the MAPs to meet. This challenge was confirmed by NERC when it stated that the current global COVID-19 pandemic has significantly impacted on the availability of imported components for local assembly of meters for supply to end-use customers under the Meter Asset Provider Regulations and rollout plan for existing stocks.⁵

5. Financial Challenges

Metering in Nigeria is highly capital intensive and the ability of the MAP to provide meters is dependent on availability of adequate funding. The shortage of liquidity in the forex market coupled with the decline in oil price poses a serious challenge to the MAPs. With the outbreak of COVID-19, the situation is much more precarious for manufacturers and investors as they are faced with inadequate forex for importation, falling demand and Naira devaluation that eroded their investments.

Since the privatisation of the power sector, inadequate funding has been one of the major problems inhibiting the sector's growth. The MAPs are also faced with the problem of raising funds for their operations. Perhaps, more important is the fact that private investors have been complaining of inability to access enough funds from banks for their operations due to the high interest rate in the country.

Funding challenges especially non availability of long-term finance continue to cripple the ability of the MAPs to meet their obligations under the Regulation. The high cost of borrowing in terms of interest coupled with the short tenor of facilities offered by commercial banks is a huge challenge. This is because the return on investment on the meters supplied to customers is long term and for the MAPs, the receivables from meter assets are not a viable source of security for obtaining funds.

The payment modular from the Discos to the MAPs for the meters installed is either through an upfront payment by the consumer or a meter service charge paid by the consumer and ringfenced by the Disco for settlement of payment obligations to the MAP.

⁵ NERC Order on the Transition to Cost Reflective Tariffs in the NESI issued in 31 March 2020

Under the Regulation, the expectation was that metering will assist with curbing the rampant energy theft which has impeded the ability of the Discos to make reasonable returns on their investments. However, consumers continue to engage in all forms of illegal connection and diverting the high energy consuming items from the prepaid meters. As a result of this, consumers do not pay the true cost of the energy consumed and this affects the ability of the Discos to fulfil their payment obligations to the MAPs.

Recommendations

Despite the numerous challenges, the objectives of the Regulation are still achievable within the remaining time frame if concerted efforts are made by all stakeholders.

1. **Better enforcement:** NERC on its part should ensure that enforcement and operational mechanisms are put in place to ensure the success of the Regulation. This should include sanctions and penalties for consumers who engage in illegal connection and diversion of energy consumption from the prepaid meters.
2. **Additional government incentives:** Government should create Incentives such as customs duty waiver for importation of meters and ancillary equipment
3. **Loans with low interest rates:** The NERC should engage with commercial banks and the Central Bank of Nigeria for the purpose of granting low interest rate financing to factories that wish to manufacture meters. Local manufacturers can also take advantage of the recent intervention funds proposed by the CBN such as the N15 Trillion InfraCo Funds for the purpose of boosting infrastructure development and N500 Billion post COVID Targeted Credit Facility to be granted by the CBN meant to alleviate the impact of COVID-19 on the small and medium sized enterprises. It is believed that the availability of low interest rate and long-term financing to the MAPs will increase their capacity to service their customers better.
4. **Reduction of administrative bottlenecks:** There is also the need to reduce administrative bottlenecks around approval for permits and clearing of imported meter parts and meters at the port. This will improve the capacity of local manufacturers including the Original Equipment Manufacturer and the assemblers to meet demand for meters. This can be achieved by placing importance on containers with meters parts and reducing the time needed to clear them at the port. It is believed that the availability of low interest rate and long-term financing to the MAPs will increase their capacity to service their customers better.
5. **Better public enlightenment:** The Discos must come up with a structured and workable plan that will ensure that more consumers are metered. This however includes adequate and proper education and public enlightenment to consumers in grassroot areas on the need and advantages of getting metered. Proper enumeration of customers should also be carried out by Discos to enable them to obtain correct data of the customers that are currently on estimated billing as there cannot be a successful implementation without adequate data to make informed decisions.

Conclusion

The MAP Regulation is a good initiative which seeks, among other things to eradicate estimated billing, ensure a more efficient way of reducing commercial and collection losses in the NESI, relieve Discos of the burden of providing metering services and enable them focus on the core responsibility of power distribution.

Two years after the release of the guidelines, considerable progress has been made, but it remains highly unlikely that the Regulation will achieve its target before the 2021 set date, unless NERC and other stakeholders engage constructively to address the shortcomings. The latest global pandemic which has shut down many businesses and company exacerbates these challenges and emphasizes the need for quick intervention. Government has to include the MAP amongst the list of critical sectors and include them in ongoing interventionist initiatives and solutions to enable them to contribute successfully to addressing the country's electricity challenges.

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