

NIGERIA ELECTRICITY MARKET INSIGHTS



1 Headlines for April

NERC's consultation paper on the development of a regulatory framework for electricity distribution franchising in Nigeria outlines 3 very different models of how franchising might work. The Franchisee might undertake:

- Metering, Billing and Collection;
- Total Management of the Electricity Distribution Function; or
- Total Management plus Distributed Generation.

We conclude from our review that the proposed regulation does not interact in a clear manner with the IEDN, MAP, Eligible Customer and Mini-grid regulations, as it is lacking in pointing out the differences as well as the possibility of the overlapping provisions of these regulations. The bankability of a Sub-franchisee is questionable as the Regulator over the years have undermined the creditworthiness of DisCos. It is unclear how they would

manage this riding on the assets of a DisCo that lenders consider unbackable. Due to the regulatory risk of low tariffs, insecure investments, lapsing licensing period and insistence on a uniform tariff; it is important that the Regulator reconsider what securities the investors would have to give their lenders if this will be a success story for both DisCos and the potential investors for a sub-franchise.

There is the added concern that there are not many eligible companies to take on the franchises that might become available. Therefore, in some cases, the bids might not be as competitive as the Regulator envisage. This could prove detrimental to a DisCo's business as an operator with limited knowledge and expertise in the operations of a distribution business could mismanage the franchise and still leave the DisCo liable.