

The CBN Framework For Financing Of National Mass Metering Programme: A Welcome Development In The Nigeria Electricity Supply Industry.

Introduction

The electricity development in Nigeria started at the end of 19th century when the first generating power plant was installed in the city of Lagos. From then until 1950, the pattern of electricity development was in the form of individual electricity power undertaking scattered all over Lagos. Some of the few undertaking were Federal Government bodies under the Public Works Department, some by the Native Authorities and others by the Municipal Authorities. In 1950, the then Colonial Government passed the Electricity Corporation of Nigeria (ECN) ordinance No. 15 of 1950 and thereafter, merged all the undertaking. In 1970, the military government appointed a Canadian Consultant Firm ''Showment Limited'' to look into the technical details of the merger. The report of Showment Limited was submitted to the government in November 1971 and by Decree No. 24, the ECN became National Electric Power Authority (NEPA) with effect from 1st April 1972. In the late 2000s, the company became a Public Limited Company (NEPA Plc), and later the name was changed again from NEPA Plc to Power Holding Company of Nigeria (PHCN).

In 2005, the Nigerian Government enacted the Electric Power Sector Reform Act to tackle the major issues such as power outages and unreliable service

within the Nigerian power sector. The Act amongst others unbundled the National Power Utility Company into a series of Eighteen (18) successor companies; Six (6) generation companies and Twelve (12) distribution companies covering all 36 Nigerian states, and a national power transmission company. The Act granted ownership of these companies to the Bureau of Public Enterprises, a privatization arm of the Federal Government of Nigeria. The reason for take-over ownership was to pave way for ambitious privatization program. On 30th September 2013, following the privatization process initiated by the Goodluck Jonathan administration, PHCN was privatized. The unbundling and privatization of PHCN in 2013 led to emergence of Six (6) generation companies ("GenCos"), Eleven (11) distribution companies ("DisCos"), and the Transmission Commission (TCN). The GenCos would each own and operate a single power generation asset. DisCos would own and operate power distribution networks while the transmission segment of the network will remain under the control of the Federal Government. The DisCos, as per their Performance Agreement, were required to make capital investments in distribution network infrastructure (including metering) and business reengineering programs to reduce losses and improve operational efficiency, commercial viability and service delivery.

As one of the earliest interventions, the Nigerian Electrical Regulatory Commission (NERC) in 2013 came up with the Credit Advanced Payment for Metering Implementation (CAPMI) Scheme. The CAPMI Scheme allowed willing customers to "advance" the cost of meter to the DisCos and be repaid in energy credit over a defined period. For numerous reasons, the CAPMI Scheme was not entirely successful and the metering gap and estimated billing remained. This led to another intervention in the form of the Meter Asset Provider (MAP) Scheme introduced by NERC in 2018. The MAP Scheme aims to create a metering services industry in order to address the problem of estimated billing and accelerate the closure of the metering gap. Whilst implementation was still at the early stages, it was observed that the MAP Scheme has suffered some early challenges including the initial distortion of the scheme by the imposition of a tariff on meter importation. In addition, industry sources said that some of the MAPs might not be financially viable to fund the capital expenditure requirements of the MAP Scheme.

On 1st September 2020, service-based tarrif (SBT) was introduced in the Nigeria Electricity Supply Industry (NESI). The tariff has put increased emphasis on the need to close the metering gap in the NESI. The closing of this gap will enhance efficiency of revenue collection by Distribution Companies (DisCos) and thereby facilitate meeting their obligations to other upstream market participants. According to analysis provided by Nigeria Electricity Regulatory Commission (NERC), the current metering gap in the NESI – based on recent customer enumeration data – is over 10 million, this

comprises of unmetered customers as well as customers with obsolete meters that need to be replaced. To deal with this, the Federal Government of Nigeria approved the National Mass Metering Program (NMMP) implementation, which outlines the operational modalities of the CBN financing support to the DisCos (Downstream) and Local Meter Manufacturers (Upstream).

Overview of the CBN Framework

According to CBN, the aim of the framework is to increase Nigeria's metering rate, eliminate arbitrary estimated billing and strengthen the local meter value chain by increasing local meter manufacturing. Other objectives of the programme, is to support Nigeria's economic recovery by creating jobs in the local meter value chain, reduce collection losses and increase financial flows to achieve 100 per cent market remittance obligations of the Distribution Companies (Discos). The framework will equally improve network monitoring capability and availability of data for market administration and investment decision making.

The framework is expected to bridge the country's metering gap and cushion the effect of the Service Reflective Tariff on electricity consumers in Nigeria. In line with this framework, the DisCos would be in the position to rollout a series of one-day metering initiative across different locations in its network. This metering initiative is designed to ensure a seamless metering process that allows customer s to register and be metered on the same day after following due process.

The Framework is structured to cover interventions targeted at the DisCos on the one hand and those meant for local meter manufacturers on the other hand.

Interventions targeted at Electricity Distribution Companies

The following are the Electricity Distribution Company that would benefit from CBN financing Scheme;

1. Any NERC licensed DisCo
2. A body corporate engaged in bulk purchase of energy and onward retail to electricity customers
3. A body corporate engaged in collection of tariff and charges and remittance of payment to the market

4. A body corporate engaged in collection of retail energy related data for the industry
5. A body corporate engaged in ownership and management of electricity distribution infrastructure including meters and metering infrastructure

By the above definition, the scope of the intervention is wide to cover all potential meter downstream activities. This means that other players such as the Disco franchises and mini grid operators will benefit from the CBN facility.

When Facility is applicable for DisCos

The facility applies for purpose of procurement and deployment of meters and the associated infrastructure (software and hardware) to support the metering network. These include but not limited to procurement of NERC approved meters, payments for installation and deployment of meters, procurement of other metering infrastructure related production and service provision as may be prescribed by NERC in relevant orders or by prevailing rules and regulations, procurement of backend metering platform and data management systems, and procurement of customer enumeration services.

The facility is not applicable to procurement of fully assembled meters from overseas except meters imported by Meter Asset Providers (MAP) already in the country as at September 30, 2020 and verified by NERC and importation of related metering infrastructure that are currently being produced in the country.

Types of Financing Applicable for DisCo

Under the framework, there are two broad categories of financing available for DisCos. The first option is the financing of orders covered under the MAP Scheme. This means that DisCo that had already engaged the services of MAPs for their metering initiative can access financing under this category to fund their payment obligations under the meter service agreement with the MAPS. The amount of accessible facility is determined based on the volume and type of meters to be procured by the DisCo for the contracted MAP.

Application for financing of orders under MAPs is made to DisCo's Guarantee Bank (GB) for financing under the programme through Real Sector Support Facility/Differentiated Cash Reserve Requirement (RSSF/DCRR). The GB will then conducts due diligence and obtain internal approval for the facility. After conducting due diligence, the GB will apply to CBN for release of funds. The application to CBN must be accompanied with the NERC allocation of verified stock assigned to the DisCo, invoice (including account details of the vendor)

for the Meters to be purchased, evidence of MAP procurement from local manufacturer (where applicable), agreement(s) signed with MAPs, certification of the meters by Nigeria Electricity Management Services Agency (NEMSA), latest 2 - year audited financial statements, and tax clearance certificate. Upon receipt of the application, the CBN will then review and communicate approval to the GB and thereafter releases the funds to the GB after satisfactory confirmation of the fulfilment of the contract by the Disco MAPs.

The second financing option is the CBN funded bulk procurement from local meter manufacturers/assemblers. This option provides financing to support the procurement of meters from local manufacturers outside of the scheme. The amount of accessible facility would depend on the volume and type of meters to be procured by each DisCo as well as the prices at which meters are brought during the bulk procurement.

To access the meter finance under this category, the DisCo must apply to its Guarantee Bank (GB) for financing under the programme (attaching the signed meter purchase agreement with local meter manufacturer) through Real Sector Support Facility/Differentiated Cash Reserve Requirement (RSSF/DCRR). The Participating Financial Institution (PFI) will then conducts due diligence and obtain internal approval for the facility and thereafter applies to CBN for release of funds. The application to CBN must be attached with a copy of NERC allocation of the quantity of meters to be procured by the DisCo in phase, the meter Agreement with local meter manufacturer after bulk procurement process, an invoice (including the bank details of the vendor), latest 2-year audited financial statements, tax clearance certificate. Upon receipt of the application, CBN will then review and release the funds to the GB to be paid to the local meter supplier's account within 3 working days from the date of release. After making payment, the respective DisCos will sign Meter Purchase Agreement (MPA) with successful bidders from the procurement exercise; this will be submitted to CBN and each DisCo's GB. The CBN through the GB will make payments to the preferred bidders on behalf of the DisCos based on the terms contained in DisCo submissions.

Loan Tenure and Interest Rates

The facility granted to any DisCo shall have a maximum tenor of 10 years but not exceeding 2030 and the moratorium on the principal amount will not exceed 24 months from date of loan disbursement.

The facility is given to Discos at an "all-in" interest rate of not more than 9 per cent per annum or any other rate as may be specified by CBN. However, as part of the Bank's Covid-19 relief package, the interest rate to be charged up to 28th February 2021 shall not exceed 5 per cent per annum. Out of the 9%, Participating Financial Institution (PFI) are allowed to charge up to 6% while

CBN retains 3%. PFIs are to remit the interest due to the CBN on quarterly basis but not later than 10 days after the end of the quarter.

Intervention Targeted at Local Meter Manufacturers

The framework provides that CBN intervention extend to local meter companies engaged in manufacturing of electricity meters and its components and the assembling of completely and/or semi knock down components into meters. The intervention is restricted to procurement of manufacturing or assembling of equipment for Meters, setting up or expansion of manufacturing or assembling facilities, procurement of production data management and software systems, and working capital. However, the intervention is not applicable to facility used to finance the importation of fully assembled meters.

For a local meter manufacturer to benefit from the facility, it must fulfil the following eligibility criteria to wit;

1. For Brownfield projects, the operators will need to show a track record of experience in manufacturing of key meter components up to the quality standards instituted by the Nigerian Electricity Regulatory Commission (NERC) and/or Nigerian Electricity Management Services Agency (NEMSA) and/or Standards Organizations of Nigeria (SON).
2. For Greenfield Projects, the operators will need to show bankable business plans acceptable to the PFIs.
3. They must demonstrate financial capacity to repay the loan through a sufficient debt service current ratio (DSCR).
4. They must be Nigerian-owned entities or consortiums involving a minimum of 70% local ownership
5. In line with the program's job creation objectives, they must demonstrate commitment to employing local talent with a detailed vocational and technical training plan.

How To Make Applications For Facility By Local Manufactures

Any eligible local manufactures that meets the requirements should submit its request to the Participating Financial Institution (PFI) under the RSSF/DCRR. The PFI should then conduct due diligence and obtain internal approval for the facility and thereafter submits request to CBN for approval and release of funds. The application will contain some documents including a written request from the project promoter, a certified true copy of Certificate of Incorporation , certified truecCopy of MEMART, certified true copy of Form CAC 1.1, business plan, and latest three (3) years audited financial

statements for existing companies or a 6-months Management Account for new companies.

Loan Tenure and Interest Rates

The facility granted to any local manufacturer shall have a maximum tenor of 10 years but not exceeding 2030 subject to the project's cash flow profile. The moratorium on the principal will depend on the type and nature of the project but will not exceed 2 years or the construction/ completion period. The working capital facility will be for one year with provision for roll-over not more than twice (i. e. maximum tenor of 3 years)

The facility is given based on "all-in" interest rate of not more than 9 per cent per annum or any other rate as may be specified by CBN. However, as part of the Bank's Covid-19 relief package, the interest rate to be charged up to 28th February 2021 shall not exceed 5 per cent per annum. Out of the 9%, Participating Financial Institution (PFI) are allowed to charge up to 6% while CBN retains 3%. PFIs are to remit the interest due to the CBN on quarterly basis but not later than 10 days after the end of the quarter.

Responsibilities of the Stakeholders under the Framework

The stakeholders under the framework include the Central Bank of Nigeria (CBN), Participating Financial Institutions (PFI), Nigeria Electricity Regulatory Commission (NERC), and Borrowers (DisCos and Manufacturers).

CBN has the obligations under the framework to articulate clear guidelines for the implementation of the facility, provide funds for the intervention, monitor and evaluate implementation of the scheme and review the guidelines of the facility as may be necessary. **PFI** has the responsibilities of receiving and processing requests for funding under the scheme, exercising due diligence and care in appraising requests under the scheme, bearing the credit risk, retaining copies in both physical and digital version of the mandate executed by the borrower, disbursing funds released from CBN to the approved beneficiaries as provided in the operational guidelines, monitor the funded projects and render periodic reports to the CBN.

NERC has the responsibility to provide the specification of meters that can be procured in both phases, provide approved meter supplier list for phase, monitor meter deployment and validate quality and quantity specifications, approve the repayment of loans through NESI collections with the requisite seniority. **Borrowers (DisCos and Local Manufacturers)** has the responsibility to comply with the guideline and the terms and conditions

outlined in the transaction documents, utilize the funds granted under the Scheme for the purpose for which it was granted, insure the project being financed by a reputable Insurance Company, adhere strictly to the terms and conditions of the credit facility, make the project and records available for inspection/verification by the CBN, PFI and NERC.

Sanctions arising from Infractions

There are several sanctions for flouting the CBN framework for meter financing. The sanctions include the following;

1. Where there is diversion of funds by the PFIs, it will attract a penalty at the bank's maximum lending rate at the time of infraction.
2. Non-rendition of returns or the rendition of false returns shall attract penalty
3. In the event of default in loan repayment (principal and interest), the PFIs shall have the right to charge commercial interest rate on the amount of default
4. Where there is unauthorized withdrawals from revenue collection account – the DMB will refund the money within 48 hours of discovery
5. Any Banks that flout the Terms & Conditions of the facility would be sanctioned.

Discontinuance of Credit Facility

This applies when a loan is repaid or the facility is otherwise discontinued. Whenever any of these happens, the PFIs will advice the CBN immediately, giving particulars of the credit facility.

Conclusion

The objectives of the CBN National Mass Metering Programme (NMPP) are impeccable. In summary, the arrangement is meant to comply with international best practice, eliminate an obnoxious billing system that has constituted a wedge between service providers and customers, improve power supply and boost employment. These are core issues of governance plaguing the country for years. It will be unfortunate if government, through sloppy implementation, misses the opportunity presented by the new scheme.

Although government gave a general impression that provision of the meters will be free, the reality may be different, going by clarification being given by some of the Electricity Distribution Companies (DISCOs). One of them, Ikeja Electrics (IE) explained, for instance, that: "Beneficiaries of the programme

which will cut across all locations in IE's network will not be required to pay upfront for the installation of meters. Rather, the modalities of cost-recovery for the meters will be clearly defined and communicated to the beneficiaries." Yet, the meters being basically the property of DISCOs, ought to be free for consumers, apart from payment of nominal fees for administrative or installation purposes. Having been forced to intervene financially in an issue that is supposed to be driven by private entrepreneurs, government must, in the overall interest of the people, monitor the implementation of the metering programme and ensure that consumers are not unduly exploited.

There has been widespread dissatisfaction among many Nigerians that those who managed to acquire the meters paid through their nose to get them. However, amidst encouraging reports that the distribution of the electricity meters had commenced with simultaneous inauguration of the scheme in Kano, Kaduna, Eko and Ikeja Discos franchise areas, what happens to the rest of the country and how soon would they be equally metered after this supposedly pilot phase? The NMMP is to roll out six million meters for all connection points on grid without meters over the next 18 to 24 months, estimated to impact 30 million consumers nationwide. The primary objective of the NMMP is to increase the metering rate of the country and close the gap of unmetered customers. It is also expected to assist in reducing collection losses, while at the same time increasing financial flows to achieve a 100 per cent market remittance obligation of the DISCOs. Ultimately, it is aimed at putting an end to the menace of estimated billing of consumers, which President Muhammadu Buhari promised to eradicate before the end of his administration.