

## Power

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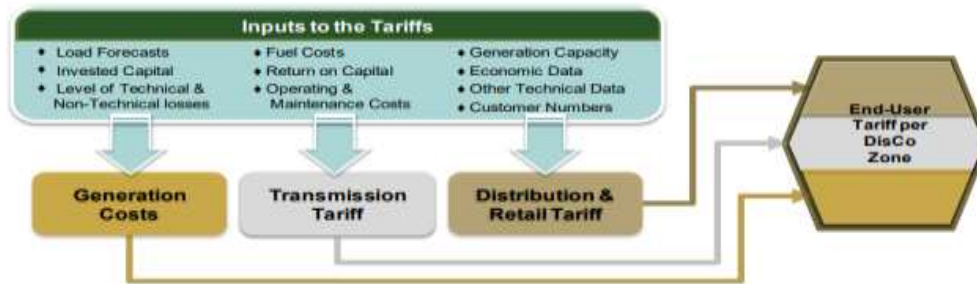
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### Proposed MYTO Review: How far does it take us to cost-reflective tariffs?

In preparation for a Minor Review of the Multi-Year Tariff Order (MYTO) in July 2022, the Nigerian Electricity Regulatory Commission (NERC) has asked for comments from the public and industry stakeholders on the proposed review which guides the review of electricity tariffs in the country. Meanwhile, we recall that two weeks ago (May 4 2022), the Commission gave some Electricity Distribution Companies (Discos) approval to increase their tariffs. The discos were; Port Harcourt Electricity Distribution Company (PHEDC); Jos Electricity Distribution Company (JEDC); Kano Electricity Distribution Company (KEDC); Kaduna Electricity Distribution Company (KEDC); Ikeja Electricity Distribution Company (IKEDC); and the Ibadan Electricity Distribution Company (IBEDC). The regulator stated the tariff hike was based on the extraordinary review of the Multi-Year Tariff Order which took effect from January 1, 2022.

The MYTO methodology consists of a formula to arrive at a tariff that will cover the long-run marginal cost of generation, transmission, and distribution. Our analysis of the tariff models for generation, transmission and distribution indicates that while the methodology used is theoretically sound and has precedents in other developed electricity markets, the financial model does not stand up to scrutiny as far as its underlying assumptions go. The result is a tariff plan that is currently not cost-reflective and is not commercially sustainable. It is an unequivocal fact that MYTO tariffs were not set at the right level, to begin with: they were set too low. Even after the several adjustments made in the Minor Reviews, they are still too low.

### MYTO II Methodology



Source: CSL research

The cash flow generated from end consumers (in a case where they get paid for all they distribute) significantly falls short of the breakeven point needed to keep operations running. Electricity from the grid is actually much less expensive than the alternatives being used to supplement the inadequate supply from the grid, so more supply from the grid should be welcomed at a higher cost. The FGN is also very sensitive to adverse reception by the electorate to increasing tariffs. In our view, this has been one major reason the government has been reluctant to raise tariffs to the cost-reflective level the industry requires. That said, we reiterate any upward review of utility costs at a time like this will strain an already impoverished Nigerian consumer.

### MARKET UPDATE

	1 year	31-Dec-21	1 day
NSE - Index*	39,307.19	42,716.44	52,756.62
Naira / US\$	411.50	435.00	418.50
Brent, US\$/bbl	69.46	77.78	111.93
MPR %	11.50	11.50	11.50

Source: Nigerian Stock Exchange, Central Bank of Nigeria, Bloomberg. \*Nigerian Stock Exchange All-Share Index

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## Today's news headlines

**Nigeria's Q1 trade deficit rose by 175%, hit \$764m – CBN:** The value of Nigeria's international trade deficit rose by 175.13 per cent from \$152.94m in January 2022 to \$420.79m in March 2022, according to data from the Central Bank of Nigeria. The International Trade Summary on the CBN's website shows that the total value of international trade was \$28.77bn in Q1 2022, with imports at \$14.77bn and export at \$14.01bn, showing a total trade deficit of N764.69m. In January 2022, export was \$4.74bn and import was \$4.89, with a trade deficit of \$152.94m. The value of the trade deficit increases further in February 2022 to hit \$190.96m, with export at \$4.70bn and import at \$4.89bn. Source: [punchng.com](https://punchng.com)

<https://punchng.com/nigerias-q1-trade-deficit-rose-by-175-hit-764m-cbn/>

**FG fails to allocate over 1,300mw, blackout looms – Report:** Over 1000megawatts of electricity are currently not allocated to power distribution companies (DisCos) despite low generation by Nigeria's 23 power plants. Checks by The PUNCH on Monday revealed that the Transmission Company of Nigeria failed to allocate 1,357MW of electricity from a paltry 3, 871MW generated on Sunday. According to data collected from the Nigerian Electricity System Operator, an arm of TCN, nine DisCos out of 11 were on Sunday allocated a total of 2, 514MW, leaving 1,357 unallocated. A breakdown of the allocation for Sunday showed that Abuja DisCo received a total of 289.92MW; Benin DisCo, 226.89; Eko DisCo, 377.31MW; while 251.89MW was allocated to Enugu DisCo. Source: [punchng.com](https://punchng.com)

<https://punchng.com/fg-fails-to-allocate-over-1300mw-blackout-looms-report/>

**Airlines, marketers' Jet-A1 supply deal crashes, product sells N612 per litre:** There appears to be no end yet to the current crisis in the aviation sector as findings show that the agreement between airlines and oil marketers can no longer hold due to continuous price hikes of the Aviation Turbine Kerosene, also known as JET-A1 or aviation fuel. Last week, the Nigerian National Petroleum Corporation and domestic airlines, during a meeting with members of the House of Representatives, reached an agreement that the corporation would supply Jet-A1 to marketers nominated by airline operators for a period of three months at N480 per litre, pending when the carriers would be granted licences to import the commodity. However, The PUNCH gathered that the agreement could no longer hold as the NNPC no longer has products. Nominated oil marketers who sold at N480 per litre have also run out of products, and local airlines are back to buying at higher prices.

Source: [thisdaylive.com](https://thisdaylive.com)

<https://punchng.com/airlines-marketers-jet-a1-supply-deal-crashes-product-sells-n612-per-litre/>

**Impact of Elections, FX Liquidity on Economy:** With the primaries of the major political parties in Nigeria just around the corner, the economy seems to be taking a backstage as all focus in recent weeks has been on persons jostling for the various political vacancies in the country. Like all the previous election seasons in the country, the naira is changing hands a lot with billions of naira being moved around in recent weeks as politicians and aspiring politicians pulled resources together to pay for the expression of intent forms in their various political parties. However, it seems not only the naira is changing hands as there has been increased dollar demand in the country, further pushing down the value of the naira, particularly in the parallel market which is not officially supervised. Source: [thisdaylive.com](https://thisdaylive.com)

<https://www.thisdaylive.com/index.php/2022/05/18/impact-of-elections-fx-liquidity-on-economy/>

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Coverage universe	17	10	5	3	35
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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