

DIRECTIVE ON COMPETITIVE TRANSITION CHARGE

On March 1, 2017 the Federal Executive Council considered and approved a request on the Emergency and Long Term Power Sector Recovery Plan and Interventions to Assure Payment to the Gas and Generation Subsectors of the Electricity Industry. At the end of its deliberations, Council, among other things:

- (a) Noted that the threat posed by persistent shortfalls in the electricity industry and the potential threat to the banking system and the rest of the economy is urgent and significant;
- (b) Noted that the payment performance of the DisCos is on an upward trend from as low as 17% to 24.9% collection for January 2017;
- (c) Noted the ongoing discussions with the World Bank with the aim of raising US\$2.519 billion from the World Bank Group for measures aimed at resetting and reforming Nigeria's power sector;
- (d) Noted that the payment assurance program initially funded by CBN, then by WBG, is part of a broader Power Sector Recovery Plan that has already started to reset the industry onto a path of financial sustainability over the 2-year program period;
- (e) Approved that NBET enters into an agreement to borrow from the CBN through the Ministry of Finance the sum of up to N701,936,483,451 for disbursement over a 2-year period and repayable over a 10-year period for the purpose of implementing the Payment Assurance Program that guarantees Energy Payments for all electricity generation and gas supply companies on the national grid;

2. Council reinforced this approval with another approval on March 22, 2017 specifically for the Power Sector Recovery Program, as reportedly required by the World Bank Group to continue ongoing consideration of its offered support, and:

- (a) Noted the collaboration between the World Bank and agencies of the Federal Government to strengthen the power sector;
- (b) Noted the financial support being offered to Government and private sector by the World Bank Group, subject to certain conditions;

- (c) The conditions include policy actions, operational and governance interventions and financial support;
- (d) Noted the list of policies actions and interventions already set out in the memorandum
- (e) Noted the amount of World Bank support
- (f) Approved the Power Sector Recovery Program in Annexure 1

3. These approvals are being implemented as the Power Sector Recovery Program (PSRP), a coordinated set of policy, regulatory and operational actions to reset the power sector on a path of financially sustainable power supply and better, customer-focused service.

4. The Payment Assurance Program is an essential part of the PSRP.

5. The implementation status and next steps of the ongoing PSRP actions are presented in Attachment 1.

PERFORMANCE AND DISBURSEMENT INDICATORS

The PSRP actions (see Attachment 1) deemed to have high impact on DisCos' collection, remittance and the gap between NBET's PPA invoices and its Vesting Contract revenues:

- (a) Establish a revenue management and collection distribution scheme based on the current NEMSF escrowed collection account for a transitional period to impose a fairer revenue distribution regime for the industry. Under the current arrangement the DisCos, who are the revenue collectors for the industry, exercise unfettered discretion over the proportion of market collections they remit to GenCos (through NBET) and TCN and other upstream market participants. They pay themselves first. They remit on average of below 35% of the amount invoiced by NBET. This places an unfair burden on GenCos and TCN to finance industry's lack of financial viability. More importantly, it does not impose enough pressure on DisCos to raise their level of collection and operational efficiency. There is a very good reason why the NEMSF facility required each participating DisCo to escrow its revenues and pay

for the NEMSF facility first before gaining access to its market collections.

Recent operational reviews by NERC confirm that the amount retained by the Discos exceeds what they would be entitled to retain even if the consumer tariff were increased from its current average of N29 per kWh to the N51 per kWh average which NERC, after recent tariff consultations with the Discos, suggests is a "cost reflective tariff".

- (b) Establish a centralized payment scheme for FGN MDAs after a rigorous audit of their energy consumption, meters, billing processes and debts. This arrangement is already operational for selected FGN MDAs in Abuja, all customers of Abuja Electricity Distribution Company Limited (AEDC). The initiative has had an impact, albeit limited, on remittance performance of AEDC. The scheme is being extended, especially to security facilities nationwide and State Governments. The Meter Asset Provider (MAP) Regulation will facilitate and expedite this extension.
- (c) Issuance and operationalization of Eligible Customer, Mini-grid and Sub-Franchising Regulations to permit willing customers to contract directly, or through NBET, with GenCos or with the DisCo for targeted feeders and sub franchise areas. These regulations will facilitate new investment by willing investors in transmission and distribution infrastructure to deliver the contracted electricity. Sub-franchising will facilitate new investment in retail operations, collections and customer management for areas where DisCos may not been very successful if managed directly, whilst guaranteeing them an agreed payment performance for energy delivered to the targeted feeder or the sub franchise area. The Eligible Customer and Mini-grid regulations are now in place. The Sub Franchise Regulation is work in progress by NERC.

The first monthly payment cycle (May 2018) for the initial bilateral contracts confirms 100% remittance to the GenCo supplier under the bilateral PPA and to TCN under the Transmission Use of Systems Agreement. The initial examples have not operationalized the Distribution Use of Systems Agreement (with provision for an independent investor as a Distribution Asset Provider) of the Competition Transition Charge and management fee for the DisCo.

These provisions will be operationalized as the DisCos understand and take advantage of the benefits to them of the regulation.

Besides 100% PPA payment to GenCos and additional infrastructure and assured or incremental revenue for TCN and participating DisCos, expansion of bilateral contracts between GenCos and willing buyers gives NBET incremental revenue as the balancing energy provider and also removes NBET's liability for the previously unutilized capacity. This has impact on the Payment Assurance Program funding requirement.

Sub Franchise operators will be required to pay for the wholesale energy, perhaps directly to NBET.

- (d) Accelerate rollout of meters across all customer classes. Increased meter penetration demonstrably builds trust between DisCos and their consumers, reduces estimated billing challenges and reduces collection losses.

The Discos have not invested adequately in meter rollout. Of the 5,780,464 meters to be rolled out in the metering commitment in their licenses and performance agreements, DisCos have installed only 840,033 (15%). NERC has issued a Meter Asset Provider (MAP) regulation that allows investors to partner with Discos to roll out meters. The first set of MAP contracts with Discos, investors/service providers and customers are in final procurement.

- (e) Discos to issue and sell new shares to raise additional equity capital, and directive to BPE to adjust the Share Sale Agreements to authorize, where necessary, dilution of the shareholding of the private investor and/or FGN (which shares are held in trust for Federal, State, Local Governments and workers of the privatized Disco).

All DisCos currently have negative equity arising from the limited investment in their networks and the large debt to NBET and Market Operator.

DisCos owed the Market Operator and the Market Operator owed TCN (Transmission Services Provider, Independent System Operator, MO, NERC and NBET), the sum of N194,220,756,291 as at April 30, 2018, accumulated since the commencement of the Transitional Electricity Market in February 2015. This debt is increasing at a rate (albeit

reducing) of about N5.4 billion (58%) per month on payables of about N9.3 billion per month.

DisCos owed NBET the sum of N889,949,597,028 as at May 30, 2018, accumulated since the commencement of the Transitional Electricity Market in February 2015. After 8 months of operation of the Payment Assurance Program and direct payment to GenCos of receipts from international customers prorated by the debt they are owed, NBET owed the GenCos the sum of N393,430,386,582. This debt is increasing at a rate (albeit reducing) of about N27 billion. The Payment Assurance Program is shielding the GenCos from this growth. It has helped stabilize the supply end of the industry.

Not all this debt is attributable to low tariff. To the extent it is attributable to inefficiency or low investment of the DisCos, their equity should be raised. DisCo balance sheets require additional equity to enable them raise debt to finance meters (notwithstanding MAP), network improvement and expansion (notwithstanding investment from Eligible Customers and investors partnering with GenCos, TCN, Eligible Customers and DisCos as transmission and distribution asset providers), and other operational requirements.

DisCos need unencumbered financing to establish good payment security to NBET that can be assigned by NBET to GenCos as a remedy for default in payment. The securities currently provided by the DisCos is not usable, due to various encumbrances by lenders and court cases and cannot be effectively assigned by NBET to GenCos.

Current Ministry policy is to support rollout of the MAP Regulation and to expand distribution capacity to deliver power to Eligible Customers and target DisCo customers under an estimated N72 billion Distribution Expansion Program. DisCos will be required to contribute their own share through a structured process after an initial investment by Government and distribution asset providers. The 2018 appropriation includes a provision for Government's initial investment.

- (f) NBET, MO, DMO, Ministry of Finance and CBN to complete an appropriately sized promissory note and bond issuance program based on an FGN guarantee. The initial effort led by NBET and the Ministry was stalled by the National Assembly. Structure and secure the

accumulated debts beyond those taken care of by NEMSF 1, MDA debt payment, through (i) direct payment; (iii) a financial instrument, regulatory assets.

Interventions to bridge the gap between industry collections and prudent costs and contractual entitlements of operators must ultimately come from two sources: (i) the operators must cover the shortfall against an expectation of future revenue which in turn is captured in the general or bilaterally contracted tariffs; or (ii) Government's annual appropriation.

It remains relevant to structure the obligations of the DisCos that the market should ultimately bear, into a yet to be defined instrument (like NEMSF) payable over a period from market collections.

A yet to be determined portion of the accumulated NBET and MO debts for 2015 – 2016, and 2017 – date, or Payment Assurance Program expenditure incurred in 2017 – 2021 will be borne by Government appropriation to repay interest and principal.

There is an ongoing initiative of Ministry of Finance to float a bond to cover all verified Government debt.

- (g) Audit, verify and pay post February 1, 2015 MDA debts, either by direct payment to upstream market participants or a discountable payment financial instrument. This work has been done. The verified N27 billion has been removed from the liability in the Discos's balance sheets.
- (h) Distribution Expansion Program to off-take 2,000MW of unutilized power and deliver to paying customers. The best way to moderate the tariff required to recover all prudent industry costs is to increase the power consumed thereby spreading overhead cost over a larger volume.

If the benefiting consumers exhibit the same bill payment performance the current liquidity challenged will be magnified not ameliorated. It is therefore important for the power to be directed at willing, paying customers of the DisCos, or to Eligible Customers. If to Eligible Customers, judicious design of the Competition Transition Charge can ensure minimal impairment of the DisCos ability to pay their bills to NBET and MO, while the 100% payment by the Eligible Customer to the

Genco suppliers and NBET's incremental revenue as the balancing energy provider will ease the pressure on NBET's Payment Assurance Program.

- (i) Tariff adjustment will be necessary to sustainably solve the liquidity problems in the industry. Until the collections from the industry can pay for all prudent costs and adequate return on capital deployed, Government financial support will be required for NBET to meet its commercial obligations to GenCos in its PPAs for the power it sells to DisCos.

Tariff adjustment by itself will not solve the problem. The other actions herein summarized are just as important. As discovered over the last 18 months of PSRP implementation, flexibility to refine the coordinated interventions based on improved understanding that comes with empirical experience is necessary.

Tariff adjustment should be contingent on a simplified methodology, more intensive public enlightenment, improved service, and wider meter penetration, which is the responsibility of DisCos and NBET in the normal course of business.



STATUS OF INTERVENTIONS OF THE POWER SECTOR RECOVERY PLAN

Table 1 – Implementation Status and Next Steps of the Power Sector Recovery Program

PROGRAM ACTION	RESPONSIBLE AGENCIES	STATUS	NEXT STEPS
Actions to strengthen financial transparency and discipline to ensure that all industry revenues are fairly distributed to all market participants and their suppliers according to contractual commitments.			
Establish a revenue management and collection distribution scheme based on the current NEMSF escrowed collection account for a transitional period to impose a fairer revenue distribution regime for the industry.	<ul style="list-style-type: none"> • NBET • NERC • CBN 	<ul style="list-style-type: none"> • Still work in progress 	1. NERC to take appropriate action
Replacement of FGN's two representatives on the Boards of the Discos with one technical professional and one commercial/financial professional for stricter corporate governance and more vigorous defense of the public interest at Board level	<ul style="list-style-type: none"> • BPE • MOFI • Disco Boards • NERC for fit and proper certification of nominees 	<ul style="list-style-type: none"> • Ministry recommended the nominees • Mr. President approved the appointments • BPE has not completed the appointments, citing error in the Ministry's nomination of 2 whereas the Share Sale Agreements with Disco investors allow only 1 FGN Board member out of the 7 positions. • Ministry has suggested a pathway to implement Mr. President's appointments of 2 • BPE action pending 	2. BPE and MOFI to implement Mr. President's appointments, as proposed by PW&H, without violating the provisions of the Share Sale Agreements
Conduct a thorough forensic audit of Discos, especially their revenue collection accounts	<ul style="list-style-type: none"> • NERC • Disco Boards 	<ul style="list-style-type: none"> • Still work in progress 	3. NERC to procure independent auditors
Require Discos to comply with Nigerian Stock Exchange (NSE) listing requirements for public companies	<ul style="list-style-type: none"> • NERC • BPE • Disco Boards 	<ul style="list-style-type: none"> • No concrete action 	4. BPE to take appropriate action
Concerted bilateral effort to make all contracts effective across the industry, and where necessary simplifying or relaxing certain problematic conditions precedent for a transitional period, with rewards for compliance. The payment assurance program will provide a strong platform for this.	<ul style="list-style-type: none"> • NERC • NBET • Operators • Attorney General of the Federation 	<ul style="list-style-type: none"> • Slow action especially on simplifying and relaxing problematic conditions 	5. NBET and NERC to define amendments required and strategy for aligning contracted baseload capacity with actual baseload



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Actions to achieve and exceed the contracted and committed ATC&C loss targets and sustain aggregate collection efficiency above 60%.			
<p>Establish a centralized payment scheme for FGN MDAs after a rigorous audit of their energy consumption, meters, billing processes and debts.</p>	<ul style="list-style-type: none"> • Ministry PW&H • Ministry Finance • Ministry B&NP • Ministry Defense • Ministry Interior • NBET • Discos 	<ul style="list-style-type: none"> • PW&H has implemented centralized payment for Power House, Secretariats and various Ministries in Abuja • Defense and Interior need to implement local bill verification and central payment for security formations nationwide 	<p>6. Important Ministries and agencies like Defense and Interior and Police Force to take appropriate action with Discos and Meter Asset Providers</p>
<p>Issuance and operationalization of Eligible Customer and Mini-grid Regulations to empower willing maximum demand customers to contract directly or through NBET with Gencos and facilitate investment in transmission and distribution infrastructure to deliver the contracted electricity</p>	<ul style="list-style-type: none"> • Ministry of PW&H • NERC • NBET • Cencos 	<ul style="list-style-type: none"> • PW&H issued directive to NERC May 2017 • NERC issued the regulation Nov 1, 2017 • First set of bilateral agreements for 15MW went into operation in May 2018 with 100% payment performance so far 	<p>7. NERC to take appropriate action on template power purchase, transmission use of system and distribution use of system agreements and competition transition charge policy submitted by Ministry</p>
Actions on metering to achieve and exceed the contracted and committed ATC&C loss targets and sustain aggregate collection efficiency above 60%.			
<p>Discos and eligible customers to deploy online meters and exclusively electronic payment for bulk power purchases</p>	<ul style="list-style-type: none"> • NERC • TCN • Discos 	<ul style="list-style-type: none"> • TCN procured automated meter reading platform recently approved by FEC for implementation of next 9 months to enable implementation of online bulk power metering 	<p>8. TCN to expedite implementation of the automated meter reading system approved by Council</p>
<p>Accelerate rollout of meters across all customer classes</p>	<ul style="list-style-type: none"> • Discos • Ministry PW&H • NERC • NEMSA • Discos 	<ul style="list-style-type: none"> • PW&H issued policy directive to NERC to issue a regulation that facilitates investment in metering as a business • NERC has issued Meter Asset Provider (MAP) Regulation • As approved by FEC, PW&H has executed a Judgement Compromise Agreement with Ziklagsis that converts a N119 billion judgement against FGN into a N39 billion loan to Ziklagsis to roll out meters as a MAP • Yola Disco has executed an agreement to roll out 450,000 meters. 8,000 are available for immediate installation 	<p>9. All MDAs that are not metered to procure meters within 6 months under the MAP Regulation.</p> <p>10. NERC to restate and enforce meter rollout obligations with recapitalization requirement if necessary</p>



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Actions to secure adequate capitalization and liquidity to ensure that all market participants, particularly those upstream of the Discos, are paid according to contracts and are adequately funded to sustain and expand their operations.			
Payment Assurance Program	<ul style="list-style-type: none"> • Ministry PW&H • Ministry Finance • CBN • NBET 	<ul style="list-style-type: none"> • CBN and NBET executed the N701.9 billion loan agreement • The program has been in operation since January 2017 • Urgent need to broaden funding sources • Resume and conclude \$1b performance loan/budget support on appropriate terms that don't aggravate sector problems. 	11. NBET to determine requirements for 100% payment guarantee for all Gencos versus 80% guarantee for some and 100% guarantee for others 12. Extend tenure of funding beyond December 2018 to December 2021 13. Expand approved facility size 14. Broaden funding sources especially finalize appropriately structured World Bank \$1 billion performance loan
Accelerated and full disbursement of NEMSF 1	<ul style="list-style-type: none"> • CBN • Ministry PW&H • TCN, NELMCO • Discos 	<ul style="list-style-type: none"> • N158.7 (75%) out of N210.6 billion disbursed • Yola, Abuja and Kaduna Discos have resolved outstanding requirements for full disbursement based on deferred payment agreements with TCN and NELMCO 	15. CBN and NERC to ensure full disbursement of NEMSF 1 and fulfillment of all conditions by Discos
Discos to issue and sell new shares to raise additional equity capital, and directive to BPE to adjust the Share Sale Agreements to authorize, where necessary, dilution of the shareholding of the private investor and/or FGN (which shares are held in trust for Federal, State, Local Governments and workers of the privatized Disco)	<ul style="list-style-type: none"> • BPE • NERC • NBET • Ministry PW&H 	<ul style="list-style-type: none"> • No concrete action by BPE and NERC • Ministry to prepare options for recovery of estimated N72 billion in Distribution Expansion Program as part of recapitalization requirement • NBET to issue demand notice for 2016-2018 Disco debts under Vesting Contracts as part of recapitalization requirement 	16. BPE and NERC to take timely and appropriate action



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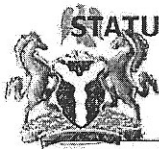
<p>NBET, DMO, Ministry of Finance and CBN to complete an appropriately sized promissory note and bond issuance program based on an FGN guarantee. This work was stalled by the National Assembly. It remains relevant to structure the obligations of the DisCos to repay any part of the Payment Assurance Program exposure that is determined not to be an obligation of Government and accumulated debts to NBET and Market Operator</p>	<ul style="list-style-type: none"> • NBET • DMO • CBN • Ministry Finance • Ministry B&NP 	<ul style="list-style-type: none"> • No concrete action 	<p>17. NBET, DMO and CBN to take appropriate action</p>
<p>Audit, verify and pay post February 1, 2015 MDA debts, either by direct payment to upstream market participants or a discountable payment financial instrument</p>	<ul style="list-style-type: none"> • Office of VP • NBET • Ministry Finance • Ministry B&NP 	<ul style="list-style-type: none"> • OVP completed the verification and audit and certified debt of N27 billion. • NBET has written off N27 billion Disco debt to NBET as FEC approved • Payment of N27 billion to Gencos outstanding by Finance and B&NP 	<p>18. NBET, Ministry of Finance and Ministry of B&NP to disburse verified N27 billion to Gencos upon clearly stated conditions</p>
<p>Structure and secure the accumulated debts beyond those taken care of by NBET's promissory note and bond, NEMSF 1, MDA debt payment, through (a) direct payment; (b) a financial instrument, regulatory assets.</p>	<ul style="list-style-type: none"> • Ministry Finance • Ministry B&NP • NBET • NNPC 	<ul style="list-style-type: none"> • No concrete action 	<p>19. NBET and Ministry of Finance to take appropriate action</p>
<p>CBN to facilitate access to foreign exchange for critical spares and service payments</p>	<ul style="list-style-type: none"> • CBN 	<ul style="list-style-type: none"> • Work in progress 	<p>20. CBN to take appropriate action on availability and process</p>
<p>Policy directive to BPE, Ministry of Water Resources and Ministry of Finance to convert the payment currency of hydroelectricity concession fees into Naira</p>	<ul style="list-style-type: none"> • BPE • Ministry Water R • Ministry Finance 	<ul style="list-style-type: none"> • No concrete progress 	<p>21. BPE to take appropriate action</p>
<p>CBN to facilitate conversion of investor share acquisition debts into Naira</p>	<ul style="list-style-type: none"> • CBN 	<ul style="list-style-type: none"> • No concrete progress 	<p>22. CBN to take appropriate action on process and qualification requirements</p>
<p>CBN to reclassify electricity industry debts and facilitate direct payment of debt obligations by NBET under the payment assurance program</p>	<ul style="list-style-type: none"> • CBN • NERC 	<ul style="list-style-type: none"> • Payment Assurance Guarantee payments by NBET are already being paid only into accounts approved by lenders 	<p>23. CBN to take appropriate action regarding reclassification qualification conditions</p> <p>24. CBN and NERC to audit all Disco collections through Banks to ensure accurate accounting and fair distribution of market revenues</p>



STATUS OF INTERVENTIONS OF THE POWER SECTOR RECOVERY PLAN

Power

Actions to attain and sustain generation, transmission and distribution above 4,000 MWh/h delivered to customers, from lowest cost baseload Gencos by deploying and/or facilitating new generation using all available energy sources, recovering lost gas supply, adding gas new supply, and completing transmission projects curtailing generation particularly in the eastern part of the national grid			
Complete legacy projects and strategic new ones to sustain gas supply, generation, transmission and distribution output above 4,000 MWh/h	<ul style="list-style-type: none"> • Ministry PW&H • Ministry Pet Res • TCN • BPE • Discos • Governors for TCN and Disco rights of way • NNPC • Gas producers 	<ul style="list-style-type: none"> • Zungeru 700MW • Katsina 10MW (commission using subcontractor) • Kaduna 215MW • Gurara 30MW • Kashimbilla (40MW) • Gurara (30MW) • Afam Three Fast Power (\$86m LC outstanding) • Mambilla (3050MW) • Transmission Rehab & Exp. Program • Various gas projects 	
Distribution Expansion to off-take 2,000MW of unutilized power and deliver to paying customers	<ul style="list-style-type: none"> • Ministry PW&H • TCN • BPE • Discos • Governors for rights of way 	<ul style="list-style-type: none"> • First batch of OEM and priority procurement and supply projects in procurement • Perfect investment recovery plan and assignment of cost to Discos • \$500 million funding proposed by World Bank for Distribution Expansion 	<p>25. Ministry and TCN to expedite procurement process</p> <p>26. BPE and Discos to agree non-Eligible Customer projects and repayment and recapitalization terms</p>
Transmission Rehabilitation and Expansion Program	<ul style="list-style-type: none"> • Ministry PW&H • TCN • Ministry Finance • National Assembly 	<ul style="list-style-type: none"> • TCN has prepared a 20-year development plan • World Bank Board has approved \$486 million Nigerian Electricity Transmission Access Project (NETAP) Other Funding Sources <ul style="list-style-type: none"> • AFD \$272 million • JICA \$200 million • AfDB \$410 million 	<p>27. Finance to submit loan applications to FEC</p> <p>28. National Assembly to approve borrowing plan</p> <p>29. SGF to provide the required legal opinion</p>
Mini-grid projects	<ul style="list-style-type: none"> • Ministry PW&H • REA • Ministry Finance • National Assembly 	<ul style="list-style-type: none"> • Energizing Economies • Energizing Education • Nigerian Electrification Project • Rural Electrification Fund projects 	<p>30. Finance to submit \$350 m World Bank loan application to FEC</p> <p>31. National Assembly to approve borrowing plan 29.</p> <p>32. SGF to provide the required legal opinion</p> <p>33. NERC to facilitate issuance of approvals, permits and licenses as stated in regulatory timelines</p>



STATUS OF INTERVENTIONS OF THE POWER SECTOR RECOVERY PLAN

Actions to implement, over time, a simplified tariff methodology and order that more accurately reflects market realities, exchange rate realities, and the cost of producing and delivering the product, and with less consumer resistance through wider consultation			
Tariff adjustment based on simplified methodology, improved service and meter penetration and public enlightenment	<ul style="list-style-type: none">• NERC	<ul style="list-style-type: none">• NERC completed a tariff review in 2017 Q4	<p>34. Clear statement that tariffs must rise to cover costs of gas, generation, transmission and distribution, after meters are more widely installed and quality of services improve so that consumers pay for only what they consume and not for inefficiencies of the operators.</p> <p>35. NERC to simplify consumer tariff methodology and get public buy-in</p>

