

# Review of the Order on the Operationalisation of the Meter Acquisition Fund (Tranche A)

OALP P&I NEWSLETTER

## INTRODUCTION

A major driver of Aggregate, Technical Commercial and Collection (ATC & C) losses for electricity Distribution Companies (DisCos) in the Nigerian Electricity Supply Industry (NESI) is the inadequate metering of end-use customers and over the years, different regulatory interventions have been implemented to ensure the mass metering of electricity customers in Nigeria.

Recent reports published by the Nigerian Electricity Regulatory Commission (NERC or the Commission) show that as of 31st December 2023, only 5,842,726 (five million, eight hundred and forty-two thousand, seven hundred and twenty-six) customers of the eleven (11) distribution companies (DisCos) operating in Nigeria were metered. This represents only 44.39% of the registered consumer base of 13,162,572 (thirteen million, one hundred and sixty-two thousand, five hundred and

seventy-two) across the country.<sup>1</sup> Poor metering results in energy that is unaccounted for and leads to loss of revenue in billions of Naira for DisCos.<sup>2</sup> This gap has been amongst other reasons, attributed to the lack of access to financing for the DisCos.

As part of the initiatives to address the financing challenge, NERC on 16 June 2024 published the Order on the Operationalisation of “Tranche A” of the Meter Acquisition Fund (the Order). The Order rides on the back of the Meter Asset Provider and National Mass Metering Regulations 2021 (MAP and NMM Regulations) and aims to operationalise the provision and supply of financing under the Meter Asset Funding (MAF) Scheme. A Fund Manager will oversee the Meter Acquisition Fund (the Fund) and will be appointed based on terms and conditions negotiated by the DisCos and approved by the Commission. In this newsletter, we set out the provisions of the Order and share our thoughts on its implications.

1. NERC, Quarterly Report 2023 (Q4), p. 43

2. Odje M, Uahunmwangho R and Okedu KE (2021) Aggregated Technical Commercial and Collection Loss Mitigation Through a Smart Metering Application Strategy. *Front. Energy Res.* 9:703265. doi: 10.3389/fenrg.2021.703265

## BACKGROUND TO THE ORDER

As earlier stated, regulatory interventions have been introduced to close the metering gap for end-use customers in the NESI. These include National Metering Policy, Meter Asset Provider Regulations 2018 and the MAP and NMM Regulations. The MAP and NMM Regulations provide for frameworks geared towards closing the metering gap in DisCos' franchise areas, namely: (i) Meter Asset Provider, (ii) National Mass Metering Programme, (iii) Vendor Finance (iv) Self-Funding and (v) other external financing measures. Despite these noble measures, the Order points out that the metering deficit in Nigeria currently stands at 7,000,000 (seven million) customers.<sup>3</sup>

In light of the MAP and NMM Regulations, the Meter Acquisition Fund (MAF) was set up under the Presidential Metering Initiative (PMI), an initiative established by President Bola Ahmed Tinubu, to close the country's metering gap by providing meters to unmetered electricity users at no cost. MAF aims to act as a catalyst to raise finance for the DisCos to meet their metering targets.<sup>4</sup> By virtue of the Multi-Year Tariff Order (MYTO) 2024 for DisCos, DisCos are expected to make a contribution of NGN1.185/kWh to the MAF<sup>5</sup> and this contribution requirement can be reviewed in line with the changes to the administration of MAF and other macroeconomic variables. Consequently, the funds which accrued from the April settlement cycle and available for metering under the MAF is NGN21,864,851,725 (Twenty-One Billion, Eight Hundred and Sixty-Four Million, Eight Hundred and Fifty-One Thousand, Seven Hundred and Twenty-Five Naira). The Order provides that all eleven (11) DisCos, subject to the fulfilment of the eligibility conditions are entitled to specified sums out as set out in Schedule 1 of the Order.<sup>6</sup>

Ultimately, the Order envisages that the financing to be provided under the MAF will (i) speed up the deployment of meters; (ii) close the metering deficit; (iii) reduce ATC & C losses; and (iv) enhance quality of service and improve customer satisfaction. The revenue stream from MAF is

meant to catalyse the mobilization of additional long-term funding for DisCos to procure more meters.<sup>7</sup> For context, this first tranche is expected to be applied towards metering the unmetered Band A customers within the franchise areas of the DisCos.<sup>8</sup> Given the wide metering gap, it is apparent that tranche A of the MAF will be insufficient for the DisCos to procure all the meters needed. As such, it is contemplated that the revenue stream from MAF will operate to serve as security or comfort for future lenders to DisCos in connection with the procurement of more meters.



## OBJECTIVES OF THE ORDER

The Order seeks to set out:



a transparent and functional framework for the operationalisation of the first tranche of metering under MAF Scheme;



eligibility conditions for access to first tranche of funding under MAF;



terms of payment, monitoring and evaluation and other conditions for manufacturers and MAPs participating under the Scheme.

## ELIGIBILITY CONDITIONS

The Order recognises three key entities for the operationalisation of the MAF and imposes eligibility requirements for these entities to access funds provided under the first tranche of the MAF Scheme. These are the DisCos, Local Meter Manufacturers and Assemblers (LMMAs) and Meter Asset Providers (MAP). The eligibility conditions for each entity are set out in the table below:

3. Section 3 of the Order

4. Okechukwu Nnodim, 'FG approves N21bn for provision of free meters' <https://punchng.com/fg-approves-n21bn-for-provision-of-free-meters/>

5. Multi-Year Tariff Order for the DisCos 2024

6. Paragraph 10 of the Order

7. Paragraph 4 of the Order

8. Paragraph 16(a) of the Order

DisCos	LMMAAs	MAPs
The provision of an application programming interface (API) for integrating to the IT platform provided by the Fund Manager (FM) allowing access to real time data and a confirmation of the activation of all meters installed under the MAF scheme.	Possession of a valid NERC certification for manufacturing of electrical energy metering systems/importation of knocked down parts.	The provision of evidence of a memorandum of understanding with LMMA for the fulfilment of a minimum 30% local content threshold; Eligible MAPs that secured an order from DisCos are required to submit evidence in support of the fulfilment of the minimum threshold of 30% local content.
Ensure completion of Know-Your-Customer (KYC) documentation.	Provision of details of proposed meter installers with valid NERC certification.	Possess a valid MAP Permit issued NERC.
Confirm the readiness of the premises for metering of all customer locations where MAF meters are to be deployed.		

## OBLIGATIONS OF DISCOS

The primary obligation of DisCos upon access to their prorated portion of the Tranche A of the Fund is to procure and install meters for unmetered Band A customers within their franchise areas. Notably, the users under the MAF arrangement will not bear any cost for the procurement and installation of the Meters. The effective date of the Order is 24<sup>th</sup> June 2024 and DisCos are mandated to ensure that within 14 days from the effective date of the Order, the DisCos shall conduct transparent and competitive procurement process for meter price determination and selection and engagement of MAP/LMMA.<sup>9</sup>

Also, within 20 days from the effective date of the Order, a report containing details of the process undertaken for the selection of MAPs/LMMAAs, including meter price, meter specifications, and the list of customers to be metered shall be sent to NERC for approval. Furthermore, the installation of contracted volume meters shall be completed within 60 days from the date of approval of the process by NERC. Importantly, all contracts for the supply and installation of meters shall be filed with the Commission.<sup>10</sup>

## REPORTING OBLIGATIONS OF ENTITIES RECOGNISED BY THE ORDER

Entities have reporting obligations under the Order within timelines set therein.

### *The Fund Manager*

The Fund Manager must send a quarterly Fund Performance Report to NERC and a one-off Risk Management Report to NERC.

### *DisCos*

DisCos on the other hand must send (i) a one-off Meter Deployment Plan to NERC/Fund Manager. (ii) a Monthly Meter Deployment Report to NERC/Fund Manager and (iii) file audited reports under the Uniform System of Accounting, which will clearly report the performance of the MAF metering programme.

### *MAPs and LLMAAs*

Lastly, MAPs/LMMAAs must send a weekly Meter Installation Report to the DisCo/FM/NERC.<sup>11</sup>

9. Paragraph 16(c) of the Order

10. Paragraph 16(e) of the Order

11. Paragraph 16(g) of the Order

## CONTRACTUAL REQUIREMENTS

To undertake the procurement and installation of the meters for the affected customers, the Order provides that the DisCos shall enter contracts with the MAPs/LMMAs through various means. The payment structure under the contract allows MAPs/LMMAs to either request or not request an advance payment from the DisCos.<sup>12</sup>

Where the MAPs/LMMAs request advance payment and furnish Advance Payment Guarantee (APG) issued by a commercial bank in Nigeria, the FM has the obligation to pay 30% of the contract sum on behalf of the DisCo to the MAP/LMMA upon the execution of the contract. Further, two (2) milestone payments will be paid to the MAPs/LMMAs and will be tied to the completion of 60% of contracted quantities and 100% of the contract respectively. The money advanced under the bank guarantee will be amortised over the payments.<sup>13</sup>

In the event that the MAP/LMMA do not request an advance payment from the DisCo, there shall be three milestone payments. The milestone payments shall be made upon the verified installation of 20%, 60%, and 100% respectively of the contracted volume of meters. Notably, the Order provides that a MAP/LMMA may, at its option, defer payment until the completion of the installation of the contracted volumes. In the contractual regime, DisCos have the obligation to ensure that all the necessary resources and network clearance required by the MAP/LMMA to install meters based on installation plans are provided and/or completed.<sup>14</sup>

## OUR COMMENTS

Considering the lack of access to financing in the context of the metering targets of the DisCos, the introduction of a source of financing such as the MAF is a step in the right direction. Commendably, the intention behind the MAF will also aid access to long-term financing for closing the metering gap. We envisage that the revenue stream from MAF may be instrumental to procuring meters for other Bands of customers in the franchise areas of the DisCos and address the issues of commercial and collection losses for DisCos.

Further, the applicability of the Order to the “unmetered” Band A customers of the DisCos is also commendable from a commercial perspective. According to the Order, this strategy is due to the need to maintain a stable level of demand, to protect the revenue and facilitate demand side management for the affected customers. Therefore, we envisage the mass metering of existing unmetered Band A customers will enable DisCos to improve the service delivery to Band A customers while plugging any collection leakage given that this Band of consumers are now required to pay full cost reflective prices for electricity since April 2024.

It is also critical from a strategic point of view to meter Band A consumers first as these consumers pay a much higher tariff than other consumers in NESI. In total, Band A consumers represent 20% (twenty percent) of electricity consumers in Nigeria and contribute significantly toward DisCos’ revenue. Metering these consumers first reduces the market risk associated with non-payment of electricity bills by consumers, avoids wastage of funds on subsidies and improves the energy efficiency of Band A consumers.

17. *Ibid*

18. *Ibid*

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