

NERC Guidelines on Registration and Engagement of Third-Party Collection Service Providers

OALP Power and Infrastructure Newsletter

INTRODUCTION

In furtherance of the Nigerian cashless policy and pursuant to its mandate under section 32(1)(a) of the then Electric Power Sector Reform Act 2005 (now repealed), the Nigerian Electricity Regulatory Commission (NERC) issued Order no. NERC/183/2019 (the **Order**) which mandated all electricity distribution companies (DisCos) to transit to cashless settlement platforms for billing/collection of industrial and commercial customers by 31 January 2020 and R3 class of residential customers by 31 March 2020. The Order provided that all collection agents, super agents, sub-agents, payment solution service providers, and payment terminal service providers engaged by DisCos to comply with the transition to cashless settlement must be registered with NERC and the Central Bank of Nigeria (CBN), but the Order did not provide for the registration procedures and requirements.

In the exercise of its powers in section 226 of the Electricity Act 2023 (EA) to make regulations prescribing all matters which by the EA is required or permitted to be prescribed, or in the opinion of NERC is necessary or convenient for the carrying out or giving effect to the EA, NERC issued the Guidelines on Registration and Engagement of Third-Party Collection Service Providers (the **Guidelines**) on 27 May 2025 to provide a framework for the registration and engagement of third-party collection service providers by DisCos approved and registered by NERC in order to enhance operational performance and mitigate risk associated with cash collection. The scope of the Guidelines covers all applicants for registration as third-party collection service

providers in federating States that have not established their electricity markets.

OBJECTIVE OF THE ORDER

The Guidelines seeks to:

- provide clear guidance to DisCos on modalities for the registration of third-party collection agent and applicable service charges;
- promote transparency and accountability in revenue collections from electricity sales by third-party collection service partners engaged by DisCos;
- standardise the use and engagement of third-party collection service partners;
- enhance revenue collection in the Nigerian Electricity Supply Industry (NESI);
- ensure efficiency of revenue collection contracts; and
- minimise the risk of loss of revenue arising from DisCos' engagement of third-party collection service providers.

REGISTRATION OF COLLECTION SERVICE PARTNERS (CSPs)

A CSP or a collection agent under the Guidelines is an entity that is engaged by a DisCo based on a valid contract for collection of revenue arising from sale of energy to end-users. The CSPs have an obligation to remit collected revenue to dedicated transaction accounts and are to be entitled to commission at a certain percentage of the total amount collected, provided that the commission for each transaction will not exceed a cap set out in the Guidelines.

The minimum requirements for approval and registration by NERC of any contract entered between a DisCo and a CSP are:



valid licence or permit from the CBN;



executed agreement with the DisCo



certificate of incorporation;



reference letter from the CSP's banker



valid tax clearance certificate for the last three years



VAT registration certificate;



list of sub-agent (if any);



API System Integration Agreement with Nigerian Inter-Bank Settlement System (NIBSS); and



payment of non-refundable registration fee of NGN100,000 (One Hundred Thousand Naira).

Third-party CSPs are required to be registered with NERC before they are eligible to render collection services in NESI, except for CSPs with operations limited to a state which has enacted its electricity law and has regulatory oversight. All collection service contracts/agreements with DisCos under the regulatory purview of NERC must be approved by NERC prior to the commencement of operation. The DisCos have the responsibility to present the collection service agreement and other documents required for registration to NERC for approval.

COLLECTION CHANNELS AND APPROVED RATES

Collection Channels

Collections are to be done through cashless collections channels that are available to the DisCos under the Guidelines. There are in all five (5) available channels, namely:

USSD:

Unstructured Supplementary Service Data also known as “quick codes” or feature codes” enable customers to transact using simple short codes commands that start with asterisk (*) and ends with a hash (#). Transactions done through USSD are real-time and do not need internet connection.

01

Mobile Payment Services:

collection is through digital payment system including transfer, virtual account number (VAN), wallets, electronic channels, web, internet/intranet, chat (WhatsApp etc), Interactive Voice Response (IVR), Payout or other approved digital payment systems.

03

Banking services:

this entails customers’ direct lodgement into bank accounts. It includes payment through switching companies like Interswitch, Flutterwave and Paystack, NIBSS, Web Central Pay and through Automated Teller Machines (ATM).

02

Agency:

this entails the use of physical infrastructure and contact points like Point-of-Sale machines (POS), vending kiosk, agents, cash payment etc.

04

Rural Services:

this pertains to agency in rural communities that are within the franchise area of the licensee.

05

Commission/Rates and Applicable Caps

The Guidelines also provides for commission/rates and applicable caps to ensure that the standardisation and optimal cost of collection through third-party collection service providers in NESI. The Guidelines contains a table with each of the collection channels and each of them, is provided a maximum rate of commission and the cap, as set out below:

S/No.	Services	Channel	Maximum Rates	Cap per Transaction (NGN)
1	USSD	USSD ≤ N5,000	NGN20	20
		USSD ≥ N5,000	NGN50	50
2	Banking Services	Bank (Switching Companies)	0.75%	1,000
		NIBSS Web Central Pay	1.25%	1,000
		ATM	1.25%	2,000
3	Mobile Payment Services	Wallet	1.10%	2,000
		Electronic	1.10%	2,000
		Web, Intranet/Internet	1.50%	2,000
		Chat, IVR, Payout	1.50%	2,000
		Mobile	1.50%	2,000
		VAN	2.00%	2,000
4	Agency	Cash payment	1.50%	2,000
		POS	1.50%	2,000
		Vending Kiosk	2.00%	2,000
		Agent	2.0-3.0%	2,000
5	Rural Services	Agents/Rural Presence	3.25%	2,000



General Provisions Applicable to CSPs and DisCos:

The Guidelines make some general provisions that apply to all CSPs and DisCos, which are:

- No CSP shall be engaged by a DisCo without the applicable CBN licence/permit.
- All third-party collection service agreements/contracts between DisCos and any CSP under the regulatory oversight of NERC are subject to NERC approval and registration prior to commencement of the transaction.
- All DisCos shall adopt more efficient and cost-effective channels for collection.
- All collection service contract shall be prefunded.
- All collection service contracts/agreements shall detail clear performance indicators for the collection provider and shall be regularly evaluated by the DisCo.
- All collection service contracts/agreements shall specify the transaction account details prior to the approval of NERC, provide that subsequent additions to the listed accounts shall be filed with the Commission.
- All collection from MD Customers shall attract no commission payment to the third-party collection agent.
- The approved commission/rate shall remain in force until amended by the NERC.
- All existing operating contract must be regularised with 90 days from the effective date of the Guidelines.

The Guidelines became effective on 27 May 2025.

OUR THOUGHTS

The Implication of the Guidelines on Revenue Collection by DisCos

The Guidelines traces its background to the Order and clearly restated the relevant obligations under the Order, which were for DisCos to transit to cashless settlement platforms for billing/collection of industrial and

commercial customers by 31 January 2020 and R3 class of residential customers by 31 March 2020. The purpose of the Guideline is to provide a framework for the registration and engagement of third-party collection service provided by DisCos. The Guidelines does not mandate all customer to pay their bill through a CSP, neither does it do away with payment by cash. Indeed, cash is one of the methods of payment under “Agency” as one of the channels of payment, except for industrial and commercial customers and R3 class of residential customers.

The Guidelines simply seek to enable the regulation and oversight of the relationship between DisCos and existing collection agents and CSPs that will be engaged and onboarded.

The Purpose of the Guidelines

The ultimate purpose of the Guidelines is to enhance operational performance and mitigate risks associated with cash collection, by providing a framework for the registration and engagement of third-party collection service providers in the NESI. This is a commendable purpose.

Revenue collection has always been an operational challenge for the DisCos, with some DisCos sometimes collecting less than half of their total billings. In the NERC Quarterly Report for Q4 2024 for instance, Jos DisCos billed NGN28.67billion and collected NGN14.25billion, representing just 49.68% collection efficiency, even though Eko DisCo had collection efficiency of up to 90%. Therefore, the expected performance enhancement by the Guidelines is most welcome. Collection of electricity bill in cash also has its risks which include potential for fraud and misappropriation and lack of transparency in the process. The focus of the Guidelines on mitigating these risks is also laudable.

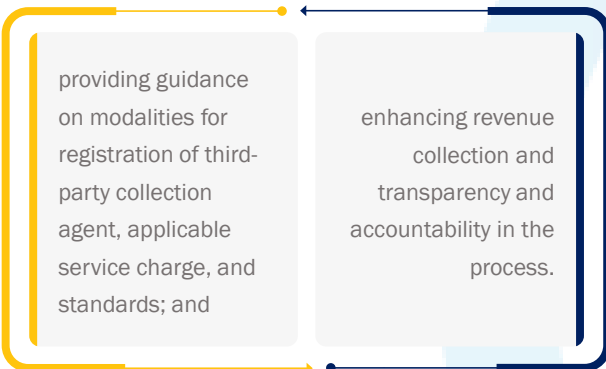
In addition to addressing the inherent risks of cash-based bill collection, one possible motivation for NERC’s intervention may be to prevent DisCos from using unregistered collection agents as a means of circumventing their escrow account obligations. Sometime in 2015, the Central Bank of Nigeria (CBN) extended the Nigerian Electricity Market Stabilization Facility (CBN-NEMSF) to DisCos. To facilitate repayment, all revenue received by DisCos is required to be deposited into a Principal Collection Account (PCA), which is managed by NESI Stabilization Securities Ltd.

Subsequently, DisCos raised concerns that the prescribed payment waterfall and disbursement process from the PCA limited their ability to enter bilateral contracts and attract external investment. In response, NERC introduced the Guidelines for Secondary Escrow Account Management for Bilateral Transactions by Electricity Distribution Licensees. These Guidelines allow DisCos to engage in bilateral transactions directly with trading partners, under a framework that includes specially designated Secondary DisCo Account Escrow Arrangements (SAEAs) for managing market-related funds specific to those transactions.

By requiring the registration of cash collection agents, NERC can better ensure that DisCos fulfill their financial obligations by preventing the diversion of collected revenues away from the PCA or SAEA frameworks.

The Objectives of the Guidelines

The six objectives of the Guidelines can be grouped into two;



Guidance on Modalities for Registration, Service Charge, and Standards

As mentioned in the Introduction to this Newsletter, the Order did not provide for the procedures and requirements for the registration of collection agents. The Guidelines has now bridged this gap by clearly providing for registration by NERC and licensing by CBN, making it easy for the DisCos to comply with the Guidelines. Similarly, the Guidelines has addressed the practice of collection agents charging arbitrary commission for their services, which impacts the total amount payable by customer for electricity, and going forward this arbitrariness in charging commission will no longer be possible.



The requirement for collection service contracts/agreements to have KPIs and for DisCos to evaluate them frequently addresses the concern of service standards of present collection agents in the system. Lastly on this point, the standardisation of the process of engaging and using third-party collection service CSPs will largely ensure uniformity and certainty in revenue collection by DisCos, which will also encourage investment.

Enhancement of Revenue Collection and Transparency

On the enhancement of revenue collection and transparency, the practice has been that DisCos have contracts or informal arrangements with agents who collect bills from customers and remit to the DisCos. This practice has its shortfalls, including the agents not fully remitting amounts collected and this is not easily noticeable by the DisCos, mostly because there is no system for the DisCos to have proper visibility on how much is collected by the agents.

The requirements of CSPs to submit dedicated accounts for the collection of revenue will ensure that CSPs do not co-mingle revenue collected from the customers of DisCos with other monies and it will be clear how much is collected and how much should be paid over to the DisCos. Integration with NIBSS will not only provide fast inter-bank payment to the DisCos by the CSPs but also ensure that revenue to the DisCos go through a system that is transparent.

With more reliable collection data and more revenue that will result for the DisCos from the blockage of leakages, the DisCos will have more resources to invest in infrastructure and improve services standards, thereby resulting in better services to customers.



Likely Enforcement Challenges and Recommendations

Registration and Licensing

The Guidelines expects prospective CSPs to be approved and registered with NERC and to also obtain a licence/permit from CBN. This entails interfacing with two government agencies and could be challenging considering the history of bureaucratic bottlenecks in public services in Nigeria. Also, the documents required for registration are quite a number. The review of all those documents including the contract between the DisCos and the prospective CSP may become protracted due to the slow pace of services in public agencies.

The Guidelines defines “CBN Licence” as “a licence or permit issued by CBN authorizing a company to operate as collection agent, super-agent, sub-agent, payment solution service provider (PSSP), or payment terminal service provider (PTSP)...” By CBN Circular no. PSM/CIR/GEN/CIR/01/22 – New Licence Categorisation for the Nigerian Payments System of 9 December 2020 (the Circular), the CBN streamlined payment system licensing into (i) Switching and Processing, (ii) Mobile Money Operations, (iii) Payment Solution Services, and (iv) Regulatory Sandbox. By the Circular, a Payment Solution Services company may hold PSSP or PTSP license, both of which CBN issues. The CBN also issues licenses for agent, super-agent, and sub-agent of financial institutions under the Guidelines for the Regulation of Agent Banking and Agent Banking Relationships.

We recommend that NERC and CBN should work together to make the process of registration and licensing seamless and fast. It is also important to ensure that related parties of the DisCos are not registered as CSPs to

avoid a situation where affiliated entities are used by the DisCos to extract value and defeat the purpose of transparency.

Commissions and Caps

It is laudable that the Guidelines provides for specific chargeable commissions and places caps on the chargeable commissions. This will do away with any form of arbitrariness in charging commission by the CSPs. However, it is hoped that in determining the commissions and caps, NERC considered all costs the CSPs will incur. If the commissions and caps are not cost-reflective, it will discourage entities from applying to become CSPs and the whole purpose of the Guidelines will be defeated. An instance of this was the complaint that the Meter Asset Provider (MAP) scheme was not cost-reflective until the prices of meters were deregulated in 2024 .

It is also not immediately clear to us why the Guidelines excludes collections from maximum demand (MD) customers from commission, seeing that these customers will pay substantial portion of the bills to be collected. This, again, may result in less than cost-reflective arrangement that will be unattractive to prospective CSPs.

We recommend that even if the present commissions and caps are cost-reflective, they should be reviewed periodically to ensure that they remain cost-reflective and attractive to entities to participate as CSPs. NERC may also want to reconsider the exclusion of collection from MD customers from commission charge by the CSPs.

Pre-funding of Collection Service Contracts/Agreements

The basis for the pre-funding of collection service contracts/agreements remains unclear. Although the Guidelines do not specify who is responsible for pre-funding, it appears that this obligation may fall on the Distribution Companies (DisCos). If this is indeed the case, it would impose an additional financial burden on the DisCos, as they would be required to set aside significant funds in advance to pre-fund such contracts.

Furthermore, there is a concern that, after receiving the pre-funding, a Collection Service Provider (CSP) may become ineffective in carrying out its collection duties, leaving the DisCos with limited recourse for recovering the funds. This raises questions about the practical benefits of the pre-funding requirement.

1. Payment Solution Service Provider
 2. Payment Terminal Service Provider
 3. Abubakar Ibrahim ‘NERC Deregulates Meter Prices for DisCos under MAP

Scheme’ Business Day (Abuja, 29 April 2024) <
<https://businessday.ng/energy/article/nerc-deregulates-meter-prices-for-discos-under-map-scheme/> > accessed 01 June 2025.



We therefore urge NERC to provide greater clarity on this requirement and to establish mechanisms that safeguard DisCos from any adverse financial impact resulting from the pre-funding of collection commissions. From the DisCos' side, it may also be necessary to include contractual safeguards - such as requiring CSPs to provide performance guarantees to ensure the fulfillment of their obligations under the agreements..

CONCLUSION

The Guidelines represent a commendable step toward reducing collection losses by DisCos and enhancing transparency in revenue collection. Their enforcement will help eliminate leakages associated with the use of unregistered and unregulated collection agents. Additionally, customers stand to benefit, as the Guidelines will curtail arbitrary and excessive commission charges by such agents.

To ensure the effectiveness of these Guidelines, the recommendations provided above should be duly considered. Furthermore, NERC must enforce compliance by sanctioning any DisCo that maintains collection arrangements inconsistent with the provisions of the Guidelines. NERC should also collaborate with DisCos to educate customers on the benefits of the Guidelines and encourage them to make payments only through registered CSPs.

It is hoped that DisCos will look beyond the immediate financial and administrative challenges of regularising existing contracts and facilitating CSP registration. Instead, they should focus on the long-term benefits of improved revenue assurance and enhanced service delivery that the implementation of the Guidelines promises.

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