Power

Comment on recent news – this page.
Today's headlines – page two
Recommendations and valuations – page three

MARKET UPDATE

Indicators	1 year	30-Dec-23	1 day
NGX - ASI*	54,780.44	74,773.77	103,952.47
Naira / US$	460.85	899.89	1382.95
Brent, US$/bbl	78.12	77.04	81.47
MPR %	18.00	18.75	24.75

Source: NGX, Central Bank of Nigeria, Bloomberg. *All Share Index

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Rising electricity subsidy

According to recent reports citing the Nigerian Electricity Regulatory Commission (NERC), the electricity subsidy in Nigeria increased by 22.16% between 2019 and 2023, rising from N528 billion to N645 billion. With the release of the 2024 electricity tariffs in January, it is projected that the subsidy payments by the Federal Government could skyrocket to N1.6 trillion this year. The report further discloses a historical trend in subsidy payments: N225 billion in 2015, N308 billion in 2016, N351 billion in 2017, N440 billion in 2018, N528 billion in 2019, N501 billion in 2020, N251 billion in 2021, N144 billion in 2022, and N645 billion in 2023. Additionally, NERC data indicates that the subsidy for January and February 2024 alone amounted to N264 billion.

Minister of Power, Adebayo Adelabu, highlighted that the government has yet to settle subsidies for the previous year and the initial two months of this year. Adelabu emphasized the delicate balance the government faces, acknowledging that while continuous subsidy payments strain its financial resources, halting them is currently unfeasible due to the economic challenges Nigerians are enduring. These challenges stem from the recent removal of petrol subsidies and the devaluation of the Naira. In January 2024, NERC introduced the new Multi-Year Tariff Order (MYTO), which increased electricity tariffs for consumers across the 11 electricity distribution companies. However, the utilities refrained from implementing the hike as the federal government committed to subsidizing the new tariffs.

One of the most glaring problems with the power sector is its uncommercial tariff plan. There appears to be no correlation between the cost of producing and supplying electricity and the tariff charged to the customer. To compound the matter, billing and cash collection remains grossly inefficient due to poor metering. The Multi-Year Tariff Order (MYTO) was intended to set electricity tariffs for consumers over a 15-year period, from 2008 to 2023. There were to be minor reviews of the industry’s pricing structure twice a year (announced on 1 December and 1 June) and major reviews every five years. Minor reviews can only consider 4 variables namely: the rate of inflation, gas prices, foreign exchange rates and actual daily generation capacity.

In June 2012, a new tariff structure was introduced, primarily aimed at raising tariffs. This move was prompted by several factors: key assumptions underlying the 2008 Multi-Year Tariff Order (MYTO) were not met, and others failed to accurately represent the operational environment. Consequently, the tariff schedule was deemed non-cost-reflective, posing a deterrent to potential investors. Since 2014, adjustments have been made to the MYTO II tariff. However, electricity distribution companies (DISCOs) continue to assert that the tariffs remain non-cost reflective. The sharp devaluation of the Naira since June 2023 necessitates a significant reassessment of the tariffs. Yet, increasing tariffs at this juncture is likely to exacerbate the financial burden on the average Nigerian consumer, who has already been significantly impacted by both the devaluation of the Naira and the removal of the subsidy on Petroleum Motor Spirit (PMS).

News headlines:

CBN Doubles Down on Monetary Tightening, Again, Raises MPR to 24.75% to Curb Inflation: The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) yesterday resolved to raise the Monetary Policy Rate (MPR), the benchmark interest rate by 200 basis points to 24.75 per cent, from 22.75 per cent. The committee also reversed the asymmetric corridor around the MPR from +100/-700 basis points to +100/-300 basis points. Also, while it retained the Cash Reserve Ratio (CRR) of deposit money banks (DMBs) at 45.0 per cent, the central bank however jerked up the CRR for Merchant Banks (MBs) from 10 per cent to 14 per cent, and left the Liquidity Ratio (LR) unchanged at 30.0 per cent. The MPC decision came just as the naira appreciated on the parallel market yesterday. Source: This Day https://www.thisdaylive.com/index.php/2024/03/27/cbn-doubles-down-on-monetary-tightening-again-raises-mpr-to-24-75-to-curb-inflation

Why We Refused to Validate $2.4bn FX Backlog: The Central Bank of Nigeria (CBN) has said that it refused to validate the outstanding $2.4 billion Forex forward transactions because they were ineligible for forex allocation. CBN governor, Olayemi Cardoso, disclosed this on Wednesday in reaction to foreign airline operators' claim that CBN was yet to settle all FX backlog to its members. Cardoso said the central bank relied on the report by Deloitte Consultants to refuse approval for the $2.4billion applications. Deloitte Consultants had produced an audit report that revealed that most of the transactions did not qualify for payment. "In some cases, some allocations were made without being requested.
Source: Punch https://leadership.ng/why-we-refused-to-validate-2-4bn-fx-backlog-cbn/

NCC insists on SIM-NIN deadline, telcos bar lines Friday: Telecommunication companies will disconnect more Subscriber Identity Module (SIM) numbers not linked to National Identification Numbers (NIN) on Friday, March 29, 2024, the Nigeria Communications Commission has said. The Director of Public Publicity at the NCC, Reuben Mouka, told The PUNCH on a telephone call that that there would be no changes to the deadline for the next phase of disconnection The NCC's directive for disconnection is being rolled out in stages, with the second phase set for March 29, 2024, continuing as previously announced. The initial phase took place on February 28, 2024. Subsequently, while the third phase is slated to begin on April 15, 2024. Source: Punch https://punchng.com/ncc-insists-on-sim-nin-deadline-telcos-bar-lines-friday/

Respite As CBN Slashes Customs Exchange Rate By 3%: The naira's continuous rise in both the official and parallel markets has brought some measures of reprieve for Nigerian importers as the Central Bank of Nigeria (CBN) further slashed the exchange rate for computing Customs duties at the nation's seaports by about three per cent. The improvement in the value of the naira to the dollar, many The Customs FX duty rate was reviewed downward from N1, 448.386/$ to N1, 405.466/$ on Tuesday, March 26, according to information obtained from the official trade portal of the Nigeria Customs Service. The value of the naira continued its gaining streak on Tuesday as it closed trading activities selling at N1,382.95 to the dollar after the Central Bank. Source: Leadership https://leadership.ng/respite-as-cbn-slashes-customs-exchange-rate-by-3/

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% distribution	0%	50%	50%	0%	

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