

MARKET PAYMENT SYSTEM DURING INTERIM PERIOD USING POWER COLLECT/NIBSS PLATFORM

The aim of this paper is to explain payment system during Interim period using automated power collect platform for efficiency.

MARKET PAYMENT SYSTEM AS A ROLE OF MARKET OPERATOR

Each month the Market Operator shall administer the market payment system, for participants to pay the debit due or be paid the credit for the previous month and for service providers to be paid corresponding charges, as specified in the final settlement.

- The Market Operator shall act in this process representing participants and service providers, but without assuming payment responsibilities. Debts and credit shall remain as rights and obligations of the participants, and the Market Operator is not liable for non-payments of participants if fund is not remitted as prescribed.**

- **22. All entities in the market shall be remunerated based on the ratio of the participant's allowable revenue and the aggregate allowable revenue for the market multiplied by the aggregate Disco remittance for the month plus other available funds in the month represented in the equation below:**

$$\frac{\text{PAR} \times (\text{TDMR} + \text{OF})}{\text{AMAR}}$$

Where

- *PAR refers to the participant's allowable revenue*
- *AMAR refers to aggregate monthly allowable revenue*
- *TDMR refers to total Disco monthly remittance*
- *OF refers to other funds (in accordance with Rule23)*

- **Any funds other than MYTO 2 subsidies used by the MO to meet market obligations to the Gencos, the Commission, NBET and Service Providers shall be repaid by the MO through funds obtained from Disco remittances after the commencement of TEM.**

BASELINE REMITTANCE

Discos shall make payments which are equal to or greater than the Baseline Remittance for invoices related to the Interim Period as stipulated below;

Disco Baseline Remittance (as a percentage of the MO's invoice)

Abuja 65.13 %; Benin 53.12% ; Eko 98.24%

Enugu 55.93% ; Ibadan 74.03%; Ikeja 90.66%

Jos 40.53%; Kaduna 49.87% ;Kano 72.23%

Port Harcourt 60.59%; Yola 25.00%

(e) Baseline Remittance levels will be subject to a monthly review based on market revenue data. Any decisions made to change baseline remittance levels will be communicated to all stakeholders by the Commission accordingly. *(NERC Interim Rule 19 (d & e))*

Disco Remittance Shortfall Management

(a) Discos shall register their collection accounts with the MO and the Commission, to whom any changes shall be immediately communicated.

(b) The accounts shall be open for audit by the MO and the Commission where a Disco fails to pay any invoice in full and on time. In the event that a Disco fails to pay the MO's invoice in full and on time in any given month, it shall be penalised for any payment lower than the established Baseline Remittance as defined in Rule 5 of these Rules in that month. The penalty also applies to any unpaid portion of the Imbalance Payment due from that Disco as described in Rule 33. (Interim Rules 35 & 36)

Disco Remittance Shortfall Management cont'd

The penalty referred to above shall comprise the following:

(a) Interest at NIBOR (Nigeria Interbank Offered Rate) plus 7.5% shall apply on the amount owed on remittances below the baseline level based on the MO's invoice. Interest payments made to the MO (either during or after the Interim Period) will be distributed to Gencos and Service Providers in proportion to the liabilities owed.

The shortfall (of payment below the baseline level) and the interest penalty shall be paid to the MO in the payment cycle immediately following the month during which the infraction occurred. Penalties will continue to be paid until the Baseline Remittance shortfall is fully paid off. If the penalty subsists for three (3) months, the Commission shall take action to sanction the CEO. **(Interim Rules 37)**

Interim Period liabilities

During the Interim Period, the MO shall keep detailed accounting records of the liabilities accumulated by each Disco and shall share these records with the Commission as required.

Liabilities accumulated by each Disco during the Interim Period shall be repayable to the MO during TEM according to the schedule agreed as per Rule 12. These funds shall be used by the MO to pay outstanding revenue due to Service Providers, Gencos, NBET and the Commission as well as any market loans and Imbalance Payments. The MO shall release monies due in proportion to outstanding shortfalls. (Interim Rules 38 & 39)

MYTO SUBSIDY ADMINISTRATION

1. The process for the disbursement of the Federal Government subsidy for the electricity tariff under MYTO-2 shall be as follows:
2. DISCOS should submit report on cash collection of R1 and R2 customers on 15 of every other month to MO
3. subsidy calculation is based on Presidential directive are; Cash collection on R1 & R2 x Gov. subsidy rate \leq 1
4. MO disburses subsidy calculated based on each Disco's collection to settle bills due to Gencos and Service Providers on behalf of each Disco.

MYTO ADMINISTRATION (cont.)

- **(a) Discos shall recognise in their books of account, MYTO 2 subsidies receivable as part of their revenue for electricity distributed. Discos shall then request for these amounts from the MO showing their computations of amounts due each month.**
- **(b) MO shall recognise the advice and reflect in its accounts that the subsidy is part of the Discos' collections. Subsidies duly received from the Ministry of Finance shall be applied by the MO to pay DISCO or specific Disco obligations .**

MO AUTOMATED PAYMENT SYSTEM

- **There is no gainsaying that the former MO method of payment was fraught with problems such as delay in cash movement, reconciliation issue etc.**
- **Consequently, for efficiency, MO has introduced an automated payment system that will work with NIBSS as follows:**

The MO PowerCollect Payment Module

LOGIN

PASSWORD

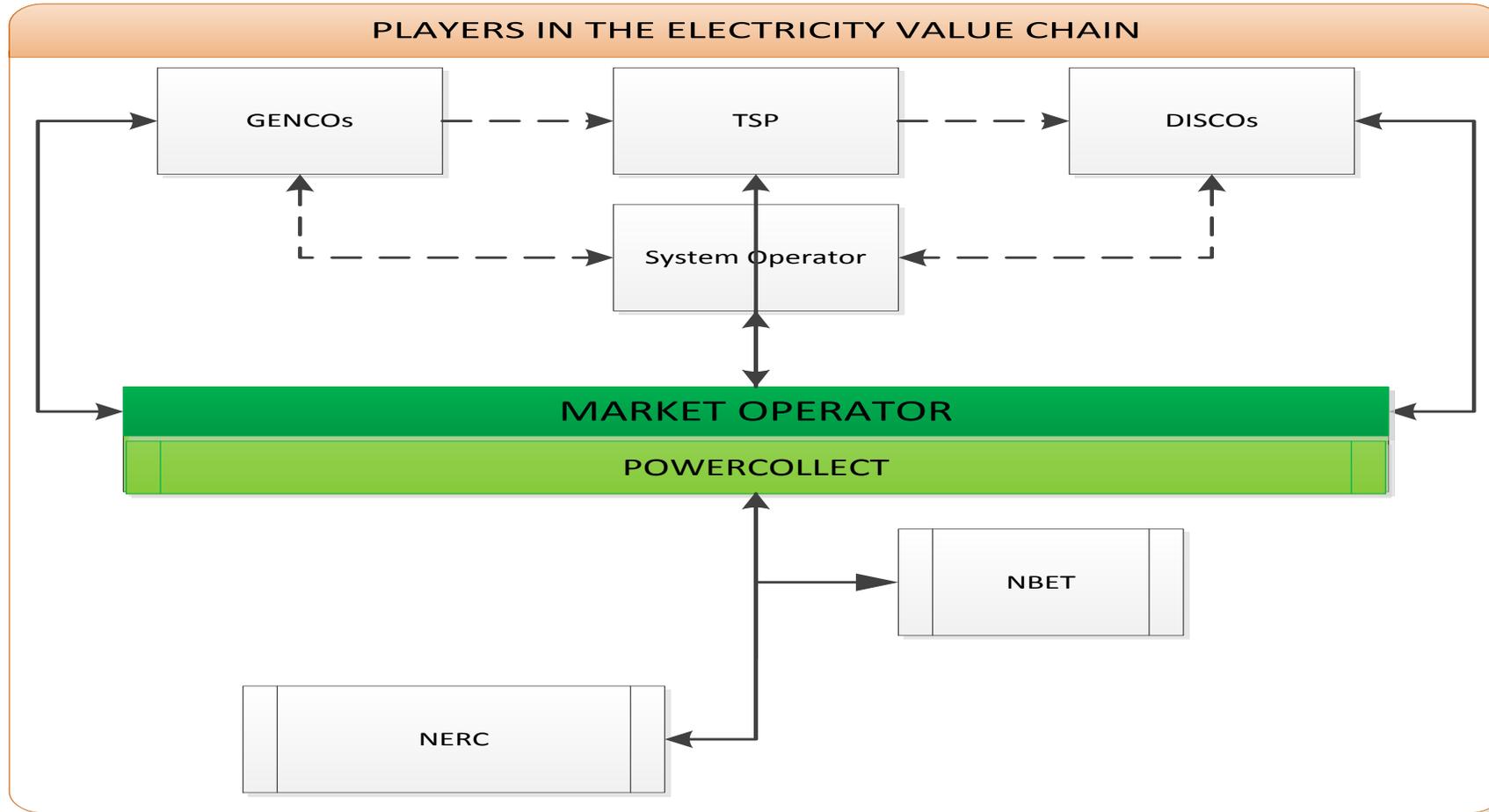
LOGIN Remember Me

Finance And Accounts January 2014

The scope

- The MO PowerCollect™ Platform is designed to automate and integrate the entire system for Market Operator. The **Payment System** will Work with the **Nigerian Inter-Bank Settlement System** [NIBSS], all banking information and Tripartite Pre-Authorized Payment information between the MO, Discos and Disco Banks will be fed into the system and used to compute automatic payment to parties based on the set rules. Rules are fed into system, and followed strictly based on authorization and the MYTO2 specifications.

Participants on PowerCollect



Banks

Market Operations is a Transforming Sector

Processes



The Sector is working on the standardization of reports and the report generation process

Tools



Providing the right tools, via technology, to improve operational efficiency.

People



Continued human capital development initiatives to empower staff to meet the demands of the twenty-first century work space

GIFMIS

NIBSS



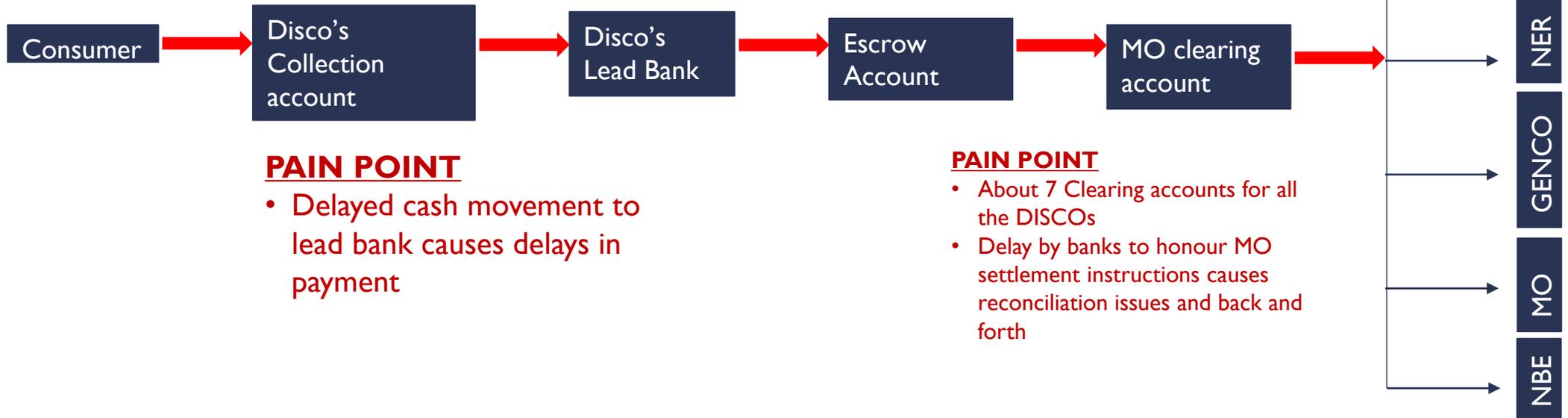
Cash flow, former process

PAIN POINT

- Maximum demand clients make payments at month end, used as an excuse by DISCOs to delay cash movement

PAIN POINT

- Banks sometimes hold on to cash to enjoy float. Further delaying payment processing
- 1 escrow account per Disco = 11 escrow accounts



PAIN POINT

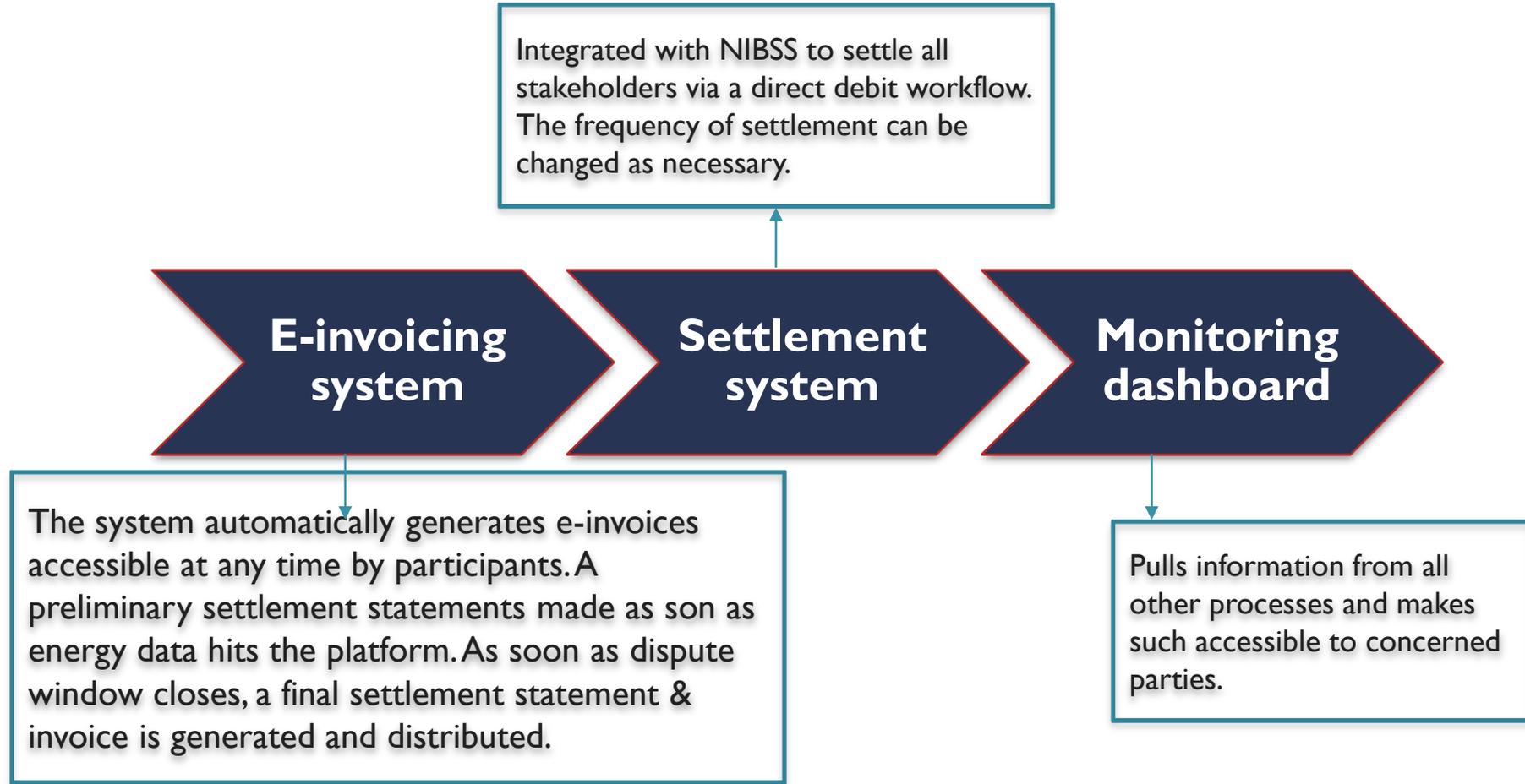
- Delayed cash movement to lead bank causes delays in payment

PAIN POINT

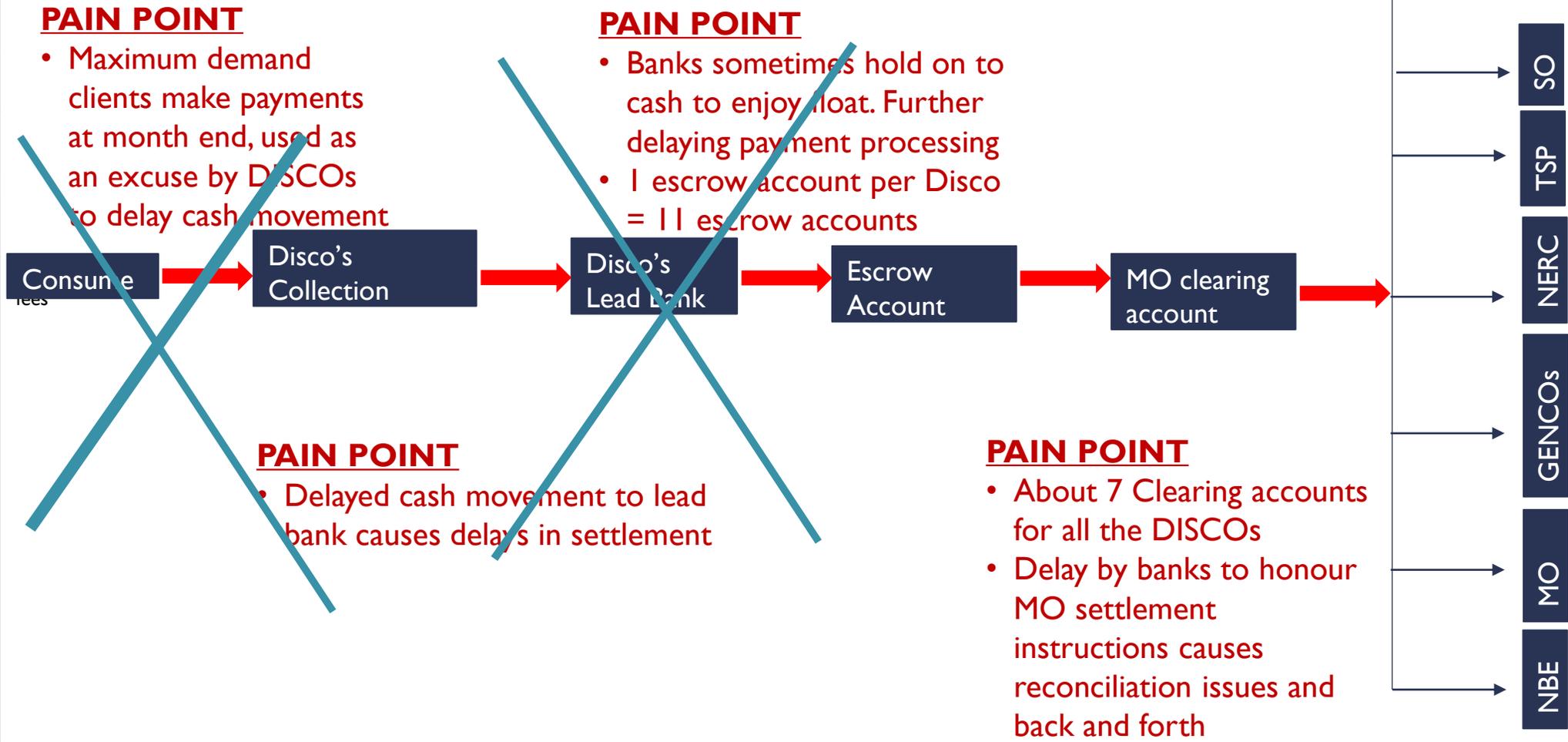
- About 7 Clearing accounts for all the DISCOs
- Delay by banks to honour MO settlement instructions causes reconciliation issues and back and forth



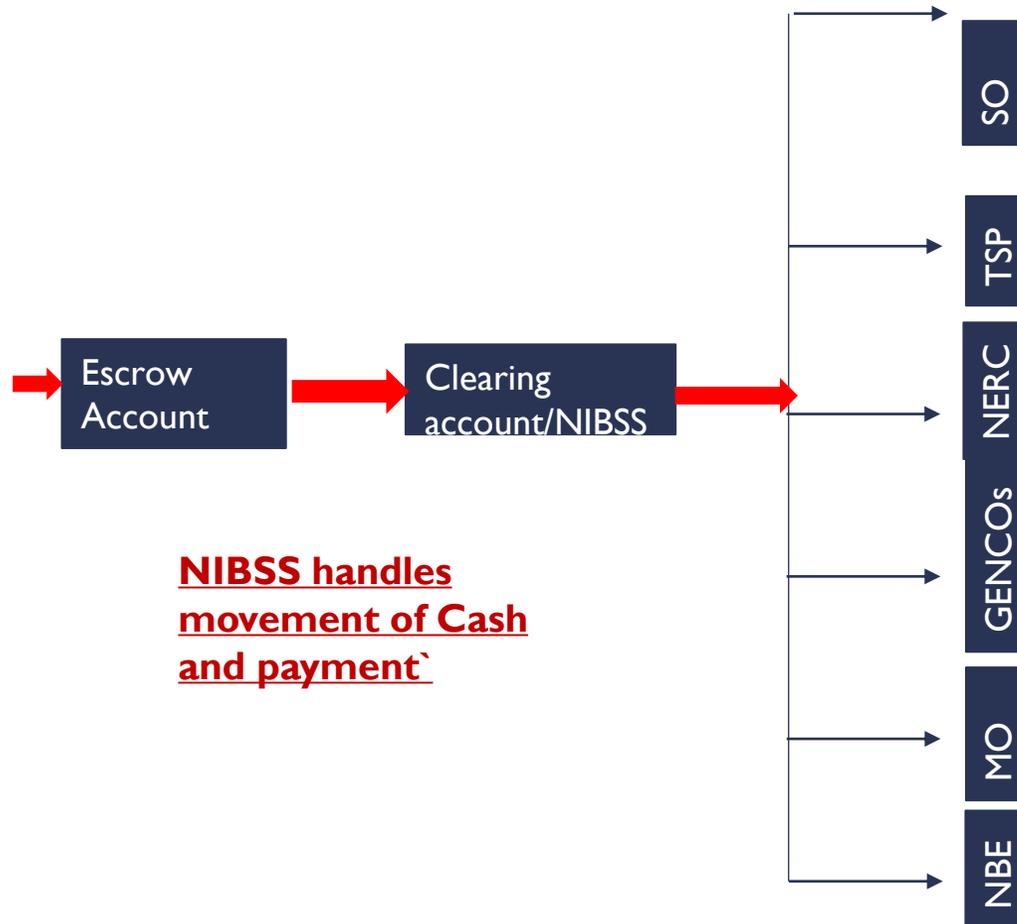
The MO PowerCollect Payments Modular Process Flow



Cash flow, With The MO PowerCollect Platform



Cash Flow, The New Process



NIBSS handles movement of Cash and payment`

The MO has full time real visibility into the status of the Escrow account; this will be made possible by the provisions of the Pre-Authorised Payment mandate. The account status will be mirrored on the MO PowerCollect platform

Final Invoices generated by the MO are electronically sent to the escrow bank and the DISCOs.

Based on fund availability in the Escrow account, movement of funds from the escrow account to clearing account is handled by NIBSS via a Pre-Authorised **Payment System**

Tripartite agreements between the Escrow bank, the Disco and the MO ensures that the bank honours all NIBSS debit instructions

Based on debit instructions sent to NIBSS via the MO PowerCollect platform, NIBSS then settles all market participants from the clearing account.

Former Process VS New Process With the PowerCollect System

	Former Process	With The MO PowerCollect Platform
Inefficiencies due to bank delays in fund movement	✓	✗
Inefficiencies due to DISCOs deliberately holding on to funds	✓	✗
On time, scheduled remittances to market participants	✗	✓
Guaranteed settlements	✗	✓
Full visibility to all stakeholders per time	✗	✓
Full transparency	✗	Item ✓
Smart Reporting functions	✗	✓
Faster reconciliation module	✗	✓
Payment acknowledgement module via e-receipting function	✗	✓
Cash movement handled by an unbiased 3 rd party – NIBSS and the CBN	✗	✓





NIBSS Handles Payments

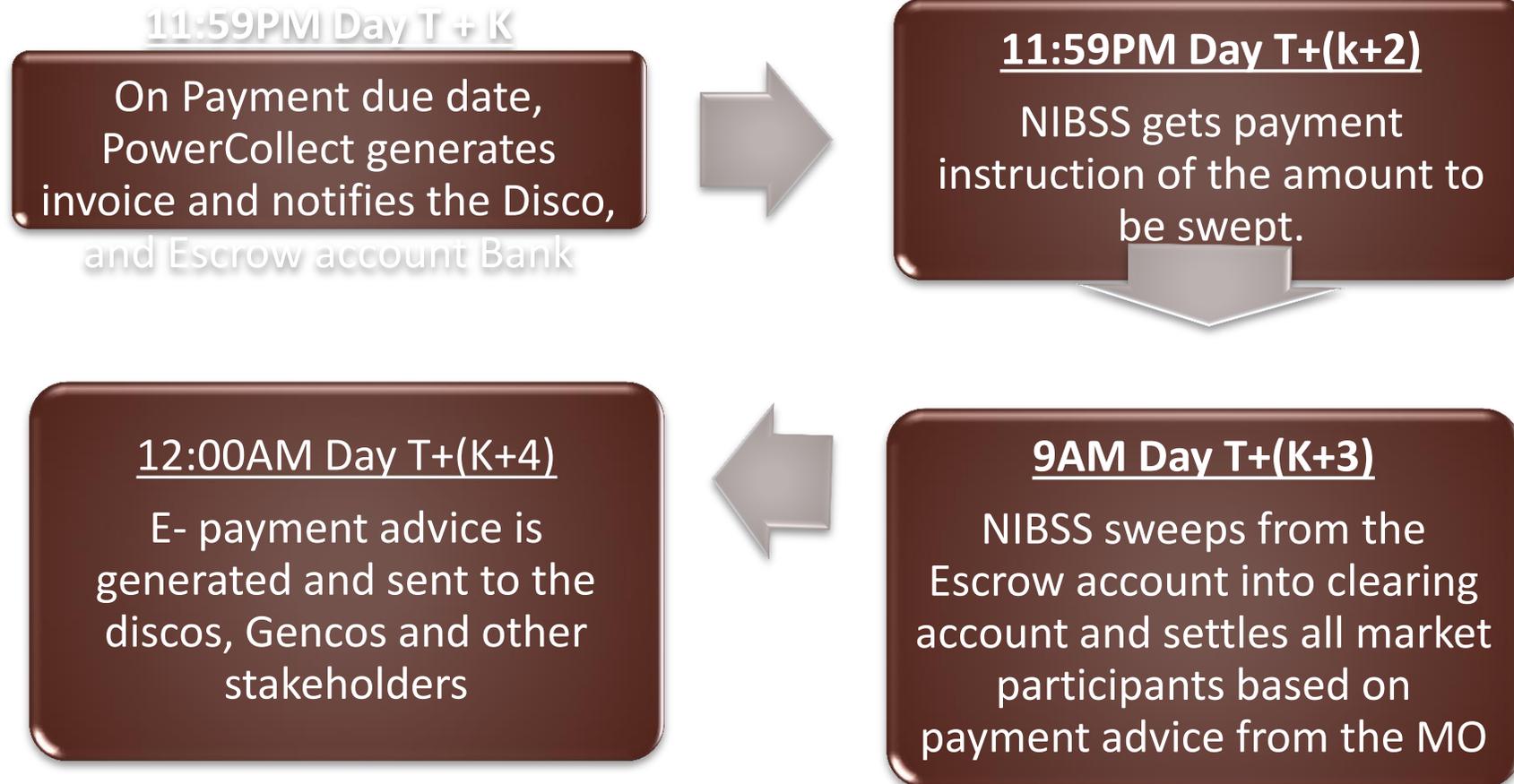
NIBSS, an independent, unbiased 3rd party handles movement of funds from the clearing account; and automatically settles all market participants accounts based on advise from the MO PowerCollect generated payment instructions.

This ensures that there are no delays in payment to any market participant.

An e-payment advice is generated on the platform once a payment has been made.

Typical Process Workflow

Where K is a time variable that can be modified to fit the MO's settlement cycle



DISCO VIEW

SETUP	User management	Can create users and assign permission to Discos
	Audit trail	Can View all activities carried out on the portal
STATEMENT & INVOICES	Settlement Statement	Can View own settlement statement
	Invoices & Debit advice	Can View own Invoice and Debit advice
Remittance & market debt	Market debt	Can View own debt
	Remittance	Can View own remittance

SERVICE PROVIDERS & GENCO VIEW

Setup	User management	Can create users and assign permissions
	Audit trail	Can View all activities carried out on the portal
STATEMENT & INVOICES	Credit advice	Can View own credit advice & E-statement
Payment & market debt	Market debt	Can View own debt
	Remittance	Can View own Payment

Summary of Benefits of the PowerCollect Platform

BENEFITS

Lower OPEX

PowerCollect will eliminate the need for manual reconciliation and invoicing processes that ultimately drive operational expenses up, thus helping all stakeholders achieve significant savings and higher returns on their investment

Accountability and Efficiency:

PowerCollect will allow for an independent system of accountability which in turn will ensure that proper accounting and record keeping processes are followed



Summary of Benefits of the PowerCollect Platform cont'd

Transparency:

The monitoring dashboard gives all players full visibility into the revenue generation, collection, and splitting processes as it relates to them, real time, thus allowing transparency in the sector that births increased cooperation and productivity amongst participants.

Revenue Enhancement:

PowerCollect is integrated with NIBSS operational workflow. This ensures that settlement invoices are honoured per time as the settlements are made against the payer's CBN net position thus eliminating room for failure.

Smart Reporting

Smart visible reporting on **outstanding balance from discos, outstanding payments to market participants, liabilities** of each disco, payment history per disco, settlement history per market participant among others.



Summary – Benefits

These will allow for faster more informed decision making and policy formulation to ensure that the sector is moving in the right direction towards the vision 2020 objective. It will also boost investor confidence in the sector and facilitate the inflow of the much needed annual investment required to ensure that said objective is met.

Market Operations Sector

**We want to be effective, we want to be efficient, We want to be transparent, we want to be a high performing Sector...
We need your help and cooperation to achieve all of these**

SALEEMAN M. A
GM (F&A) MO

Thank You