

The Impact of the Pre-Paid meter on Revenue Generation in Nigeria.

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ABSTRACT

Faced with a huge customer debt profile and revenue collection challenges the Power Holding Company of Nigeria (PHCN) introduced the pre-paid meter in 2006 to aid in revenue collection. In this paper, we examine the impact of the pre-paid meter on revenue generation. The electricity bills of consumers located in Ugbowo, Benin City, Edo state Nigeria that was previously on the post-paid billing system and later changed to pre-paid billing system for 15th January, 2007 to 15th January, 2008 and 3rd February, 2007 to 21st January, 2008, respectively were used in the analysis. The total load assessment for a three-bedroom home occupied by a consumer was carried out. Microsoft Excel 2003[®] was then used to analyze the data.

The analysis reveals that while the introduction of the prepaid meter increases the revenue collection, it reduces revenue generation because it is reliability based. Improving power reliability will increase revenue generation in the prepaid scenario. It ensures that the consumer pays only for energy consumed and not the estimated bill in the post paid system as can be seen in the large standard deviation in the units of energy consumed. The number of registered customer in the first and second quarter of 2008 in Nigeria is 4731009 and 4,771,035, respectively, while prepaid meters installed are 93134 and 99317, respectively. The differential in registered customer between the two quarters is 40,026 while differential in installed prepaid meters between the two quarters is 6,183. One would expect that the differentials will at least be equal to the 40,026 newly registered customers. This can be attributed to dwindling revenue due to the dependence of the prepaid system on reliability resulting in the reduction of its installation.

(Keywords: prepaid, post-paid, reliability, meter, power, electricity bill, utilities, revenue collection)

INTRODUCTION

The Nigeria electric power network operator, Power Holding Company of Nigeria (PHCN) has over the years being faced with the problem of revenue collection [1]. This is mostly because electricity bills are sent to consumers after it has been consumed. Consumers are reluctant to pay electricity bills due to estimated bills and unreliable power supply estimated as 0.79 [2]. This low reliability has resulted in the proposition of reliability-base billing equations in [3]. The low reliability of electric power supplies has little or no impact on the network operator because whether there is power or not, the normal estimated monthly electricity bills are sent to consumers in the post-paid method. Therefore, the consumers suffer the cost of generating power for their individual usage and the cost of electricity that was never supplied by PHCN.

Due to the huge debt owed by customers, the network operator introduced a cash collection policy called Revenue Cycle Management (RCM) that involves using private companies in the collection of monies owed [4]. This seems not to yield the expected results; hence PHCN introduced the digital pre-paid meter in 2006 which operation is similar to the loading of recharge card in the Global System for Mobile communication handset. If power is available and the pre-paid meter is loaded with units, the loaded units decreases only when load is connected and stops when power fails. Has the introduction of pre-paid meters aided revenue generation in Nigeria? This is the research question that this paper will address.

MATERIALS AND METHODS

In this work, the electricity bills of a consumer located in Ugbowo, Benin City, Edo state, Nigeria that was previously on the post-paid billing system and later changed to pre-paid billing

system for 15th January, 2007 to 15th January, 2008 [5] and 3rd February, 2007 to 21st January, 2008 [6], respectively, shall be used in the analysis. The total load assessment for the three-bed room occupied by this consumer was carried out and presented in Table 1. The electricity bills sent by PHCN for a period of thirteen months are

shown in Table 2. The pattern of electricity bill payment for thirteen months are shown in Table 3 while the Post-Paid payments for thirteen months are presented in Table 4. Microsoft Excel 2003[®] was then used to analyze these data.

Table 1: Load Assessment of the Customer's Three-Bedroom Apartment.

| Type of Load | Power Rating(W) | Quantity | Demand Factor | Actual Power(W) |
|--------------------------|-----------------|----------|---------------|-----------------|
| Medium size Deep Freezer | 130 | 1 | 0.5 | 65 |
| Washing Machine | 280 | 1 | 0.5 | 144 |
| Microwave Oven | 1000 | 1 | 0.5 | 500 |
| Electric Pressing Iron | 1000 | 1 | 0.5 | 500 |
| Air-Conditional | 1170 | 1 | 1.0 | 1170 |
| Refrigerator | 500 | 1 | 0.5 | 250 |
| Ceiling fan | 100 | 5 | 0.7 | 350 |
| Incandescent Bulb | 60 | 23 | 0.7 | 966 |
| Sony 21" Television | 100 | 1 | 0.5 | 50 |
| Sharp 14" Television | 80 | 1 | 0.5 | 40 |
| Sony Music System | 100 | 1 | 0.5 | 50 |
| DSTV Receiver | 50 | 1 | 0.5 | 25 |
| DVD Player | 50 | 1 | 0.5 | 25 |
| | | | Total | 4135 |

Table 2: The Post-Paid Electricity Bills Sent by PHCN for a Period of Thirteen Months.

| Due Date of Bill Payment | Energy Consumption (kWh) | Total Amount owed (₦) |
|---------------------------|--------------------------|-----------------------|
| 15/01/2007 | 180 | 6535.3 |
| 15/03/2007 | 204 | 4798.9 |
| 15/05/2007 | 212 | 3731.1 |
| 15/06/2007 | 142 | 2464 |
| 20/09/2007 | 97 | 3868.1 |
| 15/11/2007 | 76 | 7358.3 |
| 15/01/2008 | 760 | 7961.9 |
| Total | 1671.00 | 36717.60 |
| Mean | 238.71 | 5245.37 |
| Standard deviation | 235.59 | 2066.93 |
| Median | 180.00 | 4798.90 |

Table 3: The Pattern of Post-Paid Electricity Bill Payment for Thirteen Months [5].

| Date of Payment | Amount Paid (₦) | Amount Owed (₦) |
|---------------------------|-----------------|-----------------|
| 03/02/2007 | 2000 | 4535.3 |
| 18/04/2007 | 3000 | 1798.9 |
| 21/05/2007 | 2000 | 173.1 |
| 28/08/2007 | 2000 | 464 |
| 10/10/2007 | 3000 | 868.1 |
| 13/12/2007 | 4000 | 3358.3 |
| 21/01/2008 | 2000 | 5961.9 |
| Total | 18000.00 | 17159.60 |
| Mean | 2571.43 | 2451.37 |
| Standard deviation | 786.80 | 2219.67 |
| Median | 2000.00 | 1798.90 |

Table 4: The Pre-Paid Payments for Thirteen Months [6].

| Date of Payment | Amount (₦) | Total kWh Bought |
|---------------------------|------------|------------------|
| 28/04/2008 | 1391.05 | 347.8 |
| 08/09/2008 | 1909.52 | 477.4 |
| 05/01/2009* | 1400 | 350 |
| Total | 4700.57 | 1175.20 |
| Mean | 1566.86 | 391.73 |
| Standard deviation | 296.79 | 74.20 |
| Median | 1400.00 | 350.00 |

On 05/01/2009* the customer bought 858.1 units at a cost of ₦ 3432.38 but as of 27th March, 2009 when these data were collected he had used 350 units at a cost of ₦1400. This is why these values are shown in Table 4. It should also be noted that there are 100 units that comes with a newly installed pre-paid meter which the customer pays in first recharge.

DATA ANALYSIS AND RESULTS

Using Microsoft Excel 2003[®], the total, mean, standard deviation, and median values of the data in the Tables 1, 2, 3, and 4 were calculated and presented in the last four rows of each table.

DISCUSSION

It is obvious in from the tables that the revenue that accrued PHCN from this customer in the pre-paid era is less than the revenue in post-paid era. This is due to the fact that the pre-paid system is reliability based. If the reliability of power was to be 0.9, since no power system has a reliability of 1, the total revenue will be $4.135 \times 24 \times 30 \times 13 \times 4 \times 0.9 = \text{₦}139,332.96$ against **₦4,700.57** and **₦36,717.60** in the pre-and post-paid system, respectively. Thus, the pre-paid system ensures that customers are properly billed. There is no debt in pre-paid system; hence no need for sharp practices in the disconnection of defaulters coupled with the huge human and material resources coupled with dangers associated with disconnection exercise.

The standard deviation of the energy consumed the post paid from the mean is large. This indicates the arbitrary allocation of units in estimated bills. The cost of energy consumed is higher in the pre- than in post-paid system. This suggests that if power is available all of the time, the pre-paid consumers will generate more revenue, which in turn, will influence the consumer to willingly embark on energy saving methods that will reduce the power demand, losses and wastage on the power system.

The number of registered customers in the first and second quarter of 2008 was 4,731,009 and 4,771,035, respectively, while pre-paid meters installed were 93,134 and 99,317, respectively [7]. The differential of registered customer between the two quarters is 40,026 while differential of installed prepaid meter between the two quarters is 6,183. One would expect that the differentials will at least be equal to the 40,026 newly registered customers. This can be attributed to dwindling revenue due to the dependence of the pre-paid system on reliability. PHCN did not anticipate this when it introduced the pre-paid system.

The driving force of introducing the pre-paid system was revenue collection. It is apparent therefore, that PHCN must improve power reliability in order to increase its revenue; thereby placing responsibility on PHCN to ensure power supplies are reliable. The customer bears the brunt under the post-paid system as he/she is given an estimated bill. In the second quarter of 2008 only 99,317 were are on pre-paid (mandate) and only 49% were metered [7].

RECOMMENDATIONS

Having discussed the results, we make the following recommendations:

- i. All customers should request pre-paid meters.
- ii. The Nigerian Electricity Regulatory Commission should direct the PHCN to put all new customers in pre-paid meters.
- iii. Due to dwindling revenues from pre-paid meters: generation, transmission, and distribution

networks should be improved to increase power reliability.

- iv. Due to high surges in our power system the surge absorber in the prepaid meter can easily burn out. Thus, there is an urgent need to study the Nigerian Power System surge level in order to design the surge absorbers to fit our environment.
- v. When a loaded unit is exhausted either at night, on weekends, or public holidays, the customer cannot recharge. Thus, we recommend the recharging system should be like the GSM recharging system where units can be bought anytime and anywhere.

CONCLUSION

In this paper, we have been able to show that while the introduction of the pre-paid meter increases the revenue collection, it reduces revenue generation because it is reliability based. Improving power reliability will increase revenue generation in the prepaid. It ensures that the consumer pays only for energy consumed and not the estimated bill in post paid as can be seen in the large standard deviation in the units of energy consumed.

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