



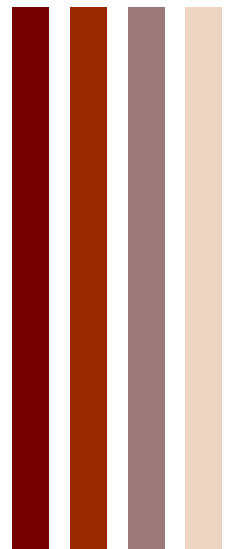
# The Pricing Framework for Interconnected Mini-Grids

Power Sector Reform Implementation Series

**AELEX**

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## Introduction

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The Nigerian Electricity Act 2023 (EA 2023) made mini-grids one of the cornerstones of Nigeria's power sector reform. It, through the licensing mechanism, moved mini-grids from being a niche "rural electrification" tool into a full commercial electricity sub-sector. The recently published Guidelines on Commercial Framework for Interconnected Mini-Grids 2025 (the IMG Commercial Guidelines) further enhance the strategy that will make mini-grids an anchor of Nigeria's power sector reform.

A key policy implementation under the Electricity Act 2023 is the promotion of renewable electricity. And, shortly after the enactment of the Act, NERC issued to each DISCO the April 2024 Supplementary MYTO, which mandates each DisCo to pursue the migration of customers from the lower service bands to Band A service level.

A way to achieve this is through the directive (in the April 2024 MYTO) that DisCos procure a minimum percentage of their load allocations from embedded generators, and that 50 per cent of such purchase should be sourced from renewable energy sources. These directives have boosted activities in the mini-grid space (between April 2024 and Q3 2025, 85 mini-grid licences and permits have been issued by NERC), as mini-grids are well-suited to decentralised and localised power generation, especially for renewable energy sources.

However, the integration of mini-grids with DisCos networks has faced a number of hurdles, including financial constraints (such as high costs, affordability of tariffs, perceived political and security risks by investors), regulatory risks related to slow approval processes and technical limitations in existing DisCos infrastructure, posing significant barriers to the effective integration of mini-grids with distribution networks.

The IMG Commercial Guidelines aim to address some of the financial constraints by providing a clear framework that clarifies ambiguities in determining the price payable by the IMG for services provided by the DisCo. The pricing components specifically addressed by the guidelines are rental fee/distribution use of system (DUoS), cost of energy and the treatment of legacy debts inherited by IMGs.

## Rental Fee/DUoS

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Under the provisions of the Mini-Grid Regulations 2023, the commercial arrangements for the IMG require the IMG permit holder to pay the DisCo a DUoS charge. The DUoS charge is the fixed price component that allows a DisCo to recover its investment and other associated returns in the distribution network and any other dedicated interconnection assets provided by a DisCo for the use of an IMG permit holder. The IMG Commercial Guidelines provides a break-down of the components of the DUoS for purposes of determining the monthly rental fee payable by the IMG permit holder to the DisCo as comprising the allowable RoI on the capital invested on the distribution infrastructure (note that the RoI components excludes RoI on working capital) and the RoI on the depreciation of the distribution assets over their useful life.

## Cost of Energy (CoE)

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The second leg of the pricing components for a DisCo's services to an IMG permit holder is the variable monthly charge payable for the energy supplied by the DisCo to the mini-grid operator. This is known as the CoE. The CoE comprises of NERC-approved borrowings and market support/stabilisation funds; the regulated energy tariff for the IMG's location and customer band; transmission charges, including transmission network charges, system operations charges, market operations charges and other administrative costs approved by NERC; 33% of the DisCo's network opex that is attributable to the provision of service by the DisCo to the IMG operator; and 25% of the DisCo's allowed ATC&C, incurred between the 33kV transformer and the interconnection point of the IMG.

## Legacy Debt

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This factor becomes important where customers to be serviced by the IMG are indebted to a DisCo. In such an instance, the IMG operator and the DisCo will have to execute a debt recovery agreement that specifies the percentage of the customer's bill/vending that will be utilised for the repayment of the DisCo. The guidelines have set a cap of 10% for such debt repayment.

Since a DisCo is a market participant under the Market Rules, the guidelines require that the IMG operator make all payments due to the DisCo into a single designated feeder collection account, which is opened and operated in accordance with the Account Administration Agreement with NESI Stabilisation Strategy Limited.

## Applicability of the 2025 IMG Commercial Guidelines

The IMG Commercial Guidelines stipulate that their provisions apply to all DisCos, interconnected mini-grid developers, and operators, as well as any entity participating in the mini-grid space. These Guidelines derive their authority from the Electricity Act 2023 and are issued pursuant to the powers of NERC.

Regulation 4 of the Mini-Grid Regulations 2023, from which the IMG Commercial Guidelines flow, expressly provides that the applicability of the Regulations is made without prejudice to sections 2(2), 63(2)(b) and 230 of the Electricity Act 2023. These provisions collectively empower States, through laws enacted by their respective Houses of Assembly, to regulate all aspects of electricity generation, transmission, distribution, supply and retail within their territorial boundaries.

Section 63(2) of the Act specifically recognises that mini-grids may be operated within a State pursuant to a licence issued under State law, provided that such licence does not permit inter-state or transnational distribution of electricity. Accordingly, the State Electricity Board or any other designated State authority is vested with the power to grant licences for mini-grids and to establish the regulatory and investment framework governing such undertakings within the State.

However, the Electricity Act equally preserves a continuing regulatory role for the Nigerian Electricity Regulatory Commission. In particular, the proviso to Section 63(7) provides that the Commission shall retain and exercise regulatory powers over mini-grids, IEDNs/IEDNOs and IETNs/IETNOs in any State where:

- a.the State has no legal and institutional framework in place for the regulation of such electricity services;
- b.the operation of such undertakings relies on any part of the national grid.

In this regard, NERC as at January 2026, had completely transferred regulatory oversight to about thirteen States—namely Edo, Ekiti, Enugu, Imo, Kogi, Lagos, Ogun, Ondo, Oyo, Anambra, Bayelsa, Nasarawa and Gombe States—such transfer does not, of itself, extinguish NERC’s regulatory authority in respect of mini-grids. Rather, the continued applicability of NERC’s regulatory instruments depends on whether the relevant State has established a comprehensive legal framework for mini-grids, particularly in relation to commercial pricing and interconnection arrangements.

Accordingly, where a State has not issued its own mini-grid regulations or commercial framework governing interconnected mini-grids, or where such mini-grids rely on the national grid or any part of it for their operations, the IMG Commercial Guidelines issued by the Commission continue to apply. A joint reading of the relevant provisions therefore suggests that the IMG Commercial Guidelines operate as the default commercial framework in all States of the Federation, pending the enactment of State-specific regimes by relevant states addressing the commercial operation of interconnected mini-grids.

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