Nigeria's Far-Reaching Macro-Economic Reforms and the Changes in the Electric Power Sector

Proem

The federal government of Nigeria commenced reforms at the macro-economic level. These steps have included substantially reducing petroleum subsidy (writer doesn't believe there is no subsidy at all), leaving the Nigerian currency, the Naira, to float rather than pre-determining/influencing its value, seeking to expand the tax net but reducing or at least keeping taxes at the current levels, amongst other steps. Many of these reforms will or have, been painful and there were going to be so, in the short term, as same were potentially going to adversely impact the country's macro-economic and socio-economic outcomes.

The writer's view is that these results or outcomes have been the case because many of these steps which should have been taken by successive governments, possibly in piecemeal are all being taken in one full swoop. Hopefully, the pains will be over soon; and the gains, obvious. It is also expected that the government will develop a robust, corruption-free social security/ safety system, as the government addresses a deluge of socio-economic and macro-economic challenges.

In government's bid to ensure medium to long term prosperity and sustainable economic growth, the electricity sector has not been left out. In this regard, the electricity regulator popular referred to as NERC, has been in the forefront of these reforms. This piece highlights a few of the reforms taking place in the electric power sector in Nigeria.

Distribution Companies Now Required to Buy Power Outside of the Bulk Trader

Whilst the Nigerian power sector policy is a multi-buyer model, it has effectively operated as a single-buyer model for reasons including, the lack of liquidity in the Nigerian Electricity Supply Industry and market indiscipline by many participants. Hence, reliance had to be placed on the Nigerian Bulk Electricity Trader (NBET) historically because of the arrangement for it to have a robust capitalization and the World Bank Partial Risk Guarantee (also popularly referred to, as the PRG).

Following the issuance of the Year 2024 Multi Year Tariff Order (also referred to as the MYTO), distribution companies are now generally required to procure bilateral power from generation sources/companies, directly. This would appear to be in preparation for the transition of NBET. For the discerning business man, there are real opportunities here, especially to now do more business with electricity distribution companies.

Specifically, NERC requires the electricity distribution companies to, by the MYTO, secure adequate bilateral contracts to facilitate a seamless exit from NBET's vesting contract regime. The bilateral contracts will help them mitigate the exposure to volumetric energy risks.

Whilst these steps are good and forward-looking, the devil is usually in the detail of implementation. The writer is of this view because the electricity market design is that of a multiple buyer model but has operated, in reality, for quite a while as a singe buyer model with NBET (acting like an Eskom of some sort) bulk purchasing and then vesting the power in distribution companies. The regulator had tried through various means to empower and enable distribution companies to procure power directly from generation companies under a few arrangements that fell through. Market indiscipline, illiquidity in the market amongst a number of sundry issues have made that not viable.

It is also important to think through a process that prevents distribution companies from cherry picking and supplying to only certain areas.

Minimum Energy Offtake

Related to the above point on DisCos securing adequate bilateral contracts is the general upward revision of the Partially Contracted Capacities (PCC- a sort of take or pay quantity arrangement) for DisCos. The PCC took effect from around July 2022 and is the target volume to be offtaken by each DisCo. Each relevant DisCo is to pay the value of the PCC once a relevant generation company declares same available. The idea here, is to achieve efficiency and improve the liquidity and revenue flow in the electric power sector.

NERC'S Sanctioning of Eleven (11) DisCos Over Non-Compliance with Capping of Estimated Bills for Unmetered Customers

In February 2020, the 'Order on Capping of Estimated Bills' was issued by NERC and subsequently, a monthly energy cap for all DisCos was introduced. The principle behind the energy cap was the alignment of the estimated bills for unmetered customers with the measured consumption of metered customers on the same electricity supply feeder. As had been specified above, NERC rules were brilliant with the best intentions and analysis, but with poor compliance and enforcement. This concept of capping estimated billing was not treated different, as same was neither complied with nor were defaulters punished.

In February 2024, four (4) years after the issuance of the regulations, NERC, as had been shown above started to push for the enforcement of its regulations. NERC had realized that, upon reviewing the DisCos' billing of unmetered customers for 2023, there was clear non-compliance with the monthly energy caps issued by NERC.

To safeguard unmetered customers from arbitrary billing by DisCos, NERC, pursuant to Section 34(1)(d) of the Electricity Act, 2023, issued the Order on Non-compliance with Capping of Estimated Bills (Order No: NERC/2023/004-014) stipulating as follows:

- DisCos are to issue credit adjustments to all overbilled unmetered customers for the period January to September 2023by the March 2024 billing cycle;
- DisCos are to publish the list of credit adjustment beneficiaries in two (2) national newspapers and on their websites no later than March 31st, 2024;
- NERC shall deduct the sum of N10,505,286,072 from the annual allowed revenues of the eleven (11) DisCos duing the next tariff review, to deter future non-compliance with the energy caps approved by NERC.

Conclusion

Several steps are now being taken in the country to ensure long term economic prosperity. However, these steps should also include those that ameliorate the adverse impacts on the citizenry. Closely related to this is that NERC, as a regulator, now appears to be better able to implement its own regulations which should support the overall government policy.

It is commonly understood that there cannot be true economic growth without improved electric power supply. Research has also shown that there is a direct correlation between public energy access and poverty. Hence, the hope is that NERC sustains its current drive for a sustainable economic growth and to ultimately reduce the huge number of poor people in the country. If there are regulators which support the federal government of Nigeria requires, NERC is certainly one of them.

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