

# **Nigeria: Regulation and Power Sector Reform**

## ***Power Sector Reform Restructuring and Regulation Policy Module***

**Abuja, May 19 - 23, 2003**

# **Nigeria: Regulation and Power Sector Reform**

## ***Policy Module Subsidies and Rural Electrification***

**Abuja, May 21st 2003  
(Afternoon: 3:45 p.m)**

# Best Practices

1- Separate political interest from decisions on electrification.

2- Strong and direct involvement of local communities, from the start of the process (Create ownership)

3- Projects take into consideration willingness and ability to pay for basic services (sustainability)

4- Provide subsidies on a transparent (non discriminatory) and predictable basis, and limited in relation to construction costs (pre defined ceiling to subsidies e.g. amount or share of investment costs)

5- Projects / communities compete for subsidy (incentives for best project and lower costs)

6- Obligation to supply and quality target, on a commercial basis once customer connected

# Nigeria: Special Funds

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- ◆ Power Consumer Assistance Fund:
  - Administered by NERC to subsidise low income consumers, as specified by Minister
  - NERC design contribution to be paid by end consumers and how to be assigned to low income consumers
    - Eligible Customers pays contribution directly to NERC
    - Consumers pay to DistCo and DistCo collect and send to NERC
- ◆ Minister = Rural Electrification Strategy
  - Grid expansion, off grid, renewables, etc.
- ◆ Rural Electrification Fund:
  - Set up and administered by Rural Electrification Agency
  - To promote, support and provide rural electrification through public - private participation
  - NERC determines contributions to be paid by end consumers

## *Key principles*

◆ International experience shows that rural electrification in areas located far from the existing facilities has costs that may be up to 5 times the average cost of supplying electricity to consumers located close to those facilities.

**Key principles that must be considered when designing Rural Electrification Program with private participation**

**1. Financial Sustainability**

**2. Increase affordability**

**3. Consumer choice and community participation**

**4. Improve economic benefits**

**5. Use strengths of existing formal/informal suppliers**

**6. Environmentally and socially accepted methods**

**7. Minimum cost for predefined supply and quality**

**8. Predictability, non discrimination and transparency**

# Key Issues

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- ◆ Maximise revenues through tariffs
- ◆ Design and implement a rationale and workable subsidy mechanism
  - In principle, only investments costs in rural electrification should be subsidised. Operational costs should not be subsidised..
- ◆ Local community participation
  - Volunteer labour and donated materials
  - Determine local share of project costs to be paid by users / community
- ◆ Rural Electrification Fund operate in a transparent and accountable manner
- ◆ Increasing affordability
  - Soft loans, grants for cooperatives / communities
  - Promoting revenue generating uses of energy (economic development)
  - Promoting less cost investment
- ◆ Set supply and quality obligations: electrification with continuity of service
  - Economic stimulus for local economy growth, and consequent higher demand for service.

# Affordability and Efficiency

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- ◆ Investing In Energy Efficiency
  - Separate efficiency codes and standards in remote areas.
  - Simple example: remote area supplied by diesel-based generation
    - Very high Fuel costs
    - While a compact fluorescent lamp may have a 2-year payback period in a main-grid application, that payback may be as short as 6-months in a diesel-fuelled application.
- ◆ Installation of distributed generation can avoid the need to upgrade or expand transmission facilities, avoids transmission and distribution losses
  - Renewable and non-renewable options, cogeneration.
  - High-quality and reliable small generators are now available
    - Can be installed more quickly than larger plants
- ◆ Process to measure the cost-effectiveness of distributed generation vs. expanding grid or supply
  - avoided capital and operating costs,
  - avoided losses