

Nigeria: Regulation and Power Sector Reform

Power Sector Reform Restructuring and Regulation Implementation Module

Abuja, May 19 - 23, 2003

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Implementation Module: Main Issues and Concerns

Abuja, May 23rd, 2003

Issues: Current conditions and Transitions

- ◆ Need to attract investment to improve quality, reliability and efficiency
- ◆ Tariffs are not cost reflective
 - Transition to close this gap
 - Rebalancing: phase out cross subsidies
- ◆ Generation capacity is insufficient
 - Transition for reliability of supply and reserve adequacy
 - Competitive Energy Procurement
- ◆ Coverage of access to electricity is low
 - Rural Electrification strategy
 - Obligations for successor DistCos?
- ◆ Multi-year efficient tariffs
 - Initial performance incentives and proposed transition for improvements
 - Pass through criteria and mechanism
 - What happens with national uniform tariff?

Issues: Affordability and Tariff Transition

- ◆ What are the cost / tariff implications of:
 - New generation entry?
 - Transmission expansion / new interconnectors
 - Increase in coverage and new connection obligations?
 - technical standards and improvements in quality obligations?
- ◆ Assess future costs / prices and Tariff evolution, to design and administer a smooth transition
 - Current tariffs do not cover costs
 - Can the private sector reasonably be expected to boost efficiency enough to meet the proposed service objectives without increasing tariffs?
 - If not, will consumers be willing to pay higher tariffs?
 - If not, which will be the funding to finance the shortfall?
- ◆ Design tariff transition and, as, vesting (initial) contracts

Questions on Transmission Regulation

Issues on decision making and cost allocation: (should be consistent with electrification policy)

- ◆ Technical standards and performance?
 - Transition plans?
- ◆ Who and how does / approve system plan and transmission expansion?
 - Mandatory expansion = regulation should ensure recovery of investment cost
- ◆ Who does the investment?
 - Monopoly or competition
- ◆ Who operates the Transmission System?
 - Transmission Company or System operator
- ◆ How are transmission recognised assets and rate of return calculated? (TransCo revenue) (SO?)
 - Initial RAB and ROR
- ◆ How are the transmission costs allocated (transmission charges)?
- ◆ Who and how monitors / enforces tariffs and technical / quality?

Typical Start Up Problems

- ◆ Implementation of rules and Codes
 - Learning stage
 - Discovering gaps, flaws
 - Difference in interpretation
- ◆ Try to stretch limits of rights of each type of Participant or by the System Operator
 - Learning a new culture, learning licence conditions
- ◆ Unrealistic expectations
 - Reform should change everything immediately (a miracle)
 - Resistance to change
- ◆ Tariff increases
- ◆ Regulator has to be ready with best knowledge and right answers
 - Good understanding of regulatory framework, reasonable expectations
 - Know in advance problems, before they happen (avoid or mitigate problems / conflicts)

Implementation Strategy (1)

- ◆ Start up of NERC
- ◆ Implement Licensing Regime
 - Standard procedures and standard forms (draft exists)
 - Clarify issues e.g. amendments, fees
- ◆ Licences of successor companies:
- ◆ Grid Code and Market Rules (Drafts exist)
 - Review and complete / improve?
 - Add rules / procedures for transitions
 - Minister approval
 - Clarify NERC role
- ◆ Additional Codes?
- ◆ When does Transitional Market start?
- ◆ Regulation of the Market until fully competitive
 - Procedures / regulations for variable costs offers
 - Caps, floors, VOLL for Balancing Market and offers
 - Regulation / Guidelines on contracting process by DistCo or Bulk Trader

Implementation Strategy (2)

- ◆ Tariffs
 - Rate of return for Transmission and for distribution
 - Wholesale costs that pass through to tariffs?
 - Vesting contracts? If yes, design and prices?
- ◆ Plan for retail competition: predictability of impact on new DistCo business
- ◆ Plan on performance improvements in each DistCo
- ◆ Time and money was dedicated to restructuring, regulatory and market design, but success also needs support
 - Training in rules, Codes and licence conditions
 - Training of SO service to minimise mistakes or inadequate implementation
 - Hardware upgrade but many times little or no training in its new role and implementation problems
 - Coaching to minimize problems / mistakes of new Regulator

Issues on System Operator

- ◆ Learn to be a service provider
 - Learn to be independent
 - Learn to respect rules and be transparent
 - Learn to communicate with other participants
 - Learn limits of rights and duties
 - Give priority to established quality of service and reliability
 - Not more and not less
- ◆ Capability and knowledge: training, training, training
 - Build expertise and understanding of new rules and Codes
 - Training policy and permanent training program
 - Role as trainer of industry Participants
 - Share experiences and learn from other System Operators
- ◆ Economy and efficiency
 - Transparency and predictability in Dispatch
 - Adequacy of software models