THE WHITE COLLAR

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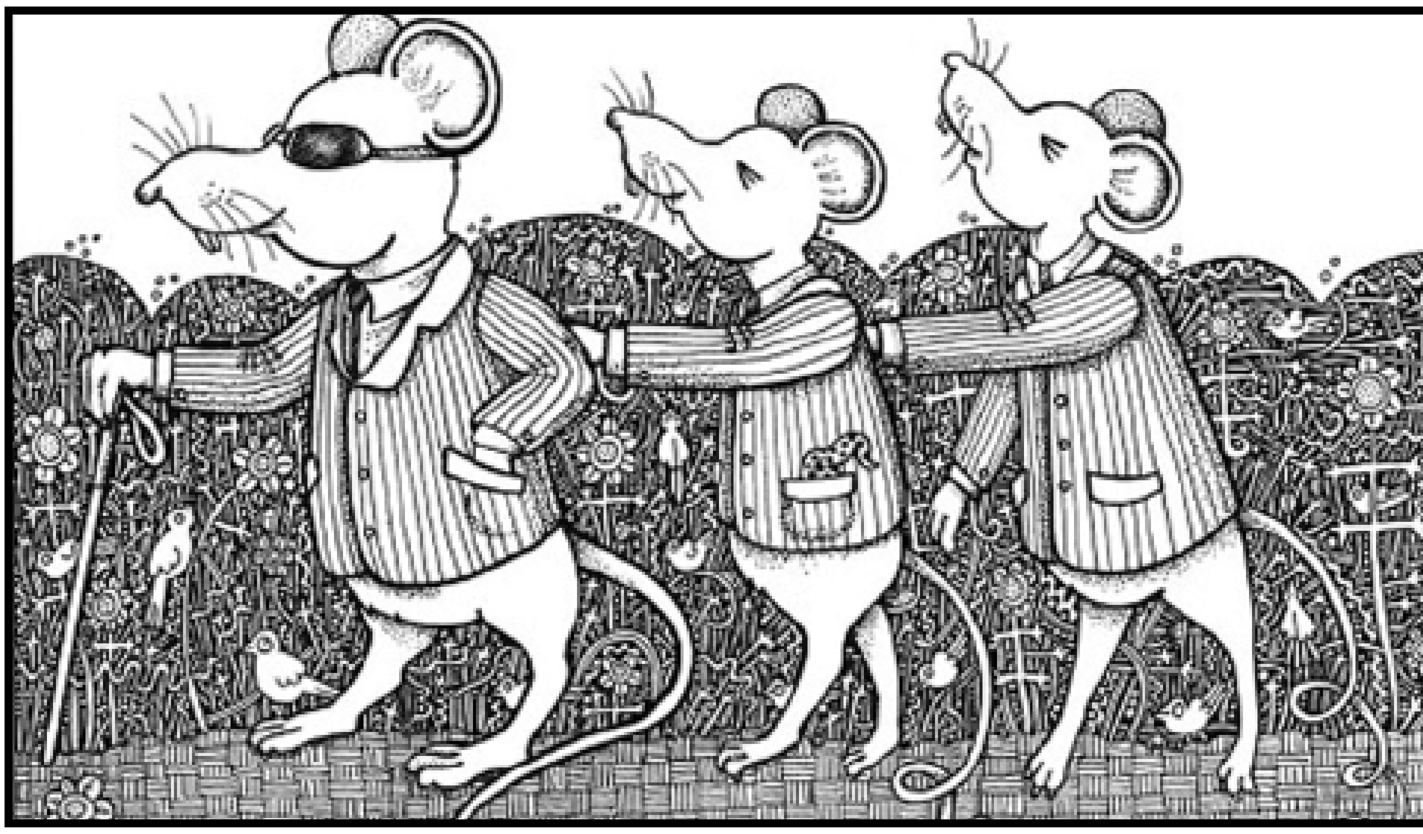
The Three Blind Mice: The Fairy-tale of Nigeria's Electricity Production's Unbundling



Rule 1- 'It Can be Done'

It is as simple as ABC it would seem. (A)-China is the world's largest producer of Electric power, producing 5, 361 Gigawatts or some 5, 361, 619 Megawatts of Electricity in 2013. Lets put that in context that is 10 times more than Nigeria produces, some say enough to run Nigeria at least 25 times over and almost a quarter of the entire world's production. It is clear; Electricity production is not a problem for some. (B) How do they do it? 69% is generated from fossil fuels and in particular Coal Stations, 22.5% is from Hydro-Electric installations similar to our Kainji Dam in Niger State, 1.2% is Nuclear Generated Electricity and 7.2% is from Renewable Energy with its wind and solar installations which are believed to be the largest in the world. (C) We can therefore conclude that the first rule in Electricity Production is –It can be done.

Spread the 'Eggs' in Many Baskets

Another discernible pattern from the nations that have successfully overcome the problem that national Power Production poses is a modern varied mix of Energy sources. France for example has established an 'Energy Mix' since the 2000s proportioned as 45% Nuclear Generated Energy, 30% Fossil Fuel based (Oil), 15% from Natural Gas and 8% from Renewables. Denmark on the other hand, ranked as number 1 for Energy Security in Europe, derives 25% of its Energy from Wind power, 20% Natural Gas, 16% Coal and about 39% on Oil.

So what is the problem with securing a stable Energy Mix in Nigeria? We know it can be done. We know how it can be done, or at least who to learn from and yet our focus is still only on Electricity Production, and Oil Production which we fall terribly short of. It then begs the question "What is anyone doing about the future Energy Mix in Nigeria?"

From NEPA to NERC

For anyone "that does not know what has been happening in *Jerusalem* these past few" years a little context is in order at this point. The reform of the Nigerian Electricity Industry was started in 2005 under former President Olusegun Obasanjo with the passage of the 2005 **Electric Power Sector Reform Act** (EPSR Act). We know that the act was to enable a transition from the National Electric Power Authority's (NEPA's) role providing a "social service" enabling access to Electricity of ordinary Nigerians (as was it's original purpose) to the privatisation of the Power Holding Company of Nigeria (PHCN) and an open/semi-open market system for the acquisition of 'Electric Utility Services' from market providers operating a profit-based business model.

Now while all this isn't new to us, the reason it is important to spend time recognising it here is identifying the purpose of the privatisation will help guide the assessment of the success of the process. Another pertinent purpose to our discourse this serves, is to recognise the comprehensive role NEPA played in the provision of Electricity. Specifically **Section 7** of the N**ational Electric Power Authority Act 1972** charged NEPA among other things with:

"(c) supplying electricity and promoting economic and efficient electricity generation, distribution and supply at reasonable prices"

Section 7(2)(b) further empowers NEPA to:

"(b) to construct, reconstruct, maintain and operate electric generating stations, transmission and distribution lines on, above or below ground, transformer stations and all other stations, buildings and works necessary for carrying out its duties under this Act…"

During the privatisation process concluded in 2014 under former President Goodluck Jonathan's Administration, these responsibilities in section 7, for Generating, Transmitting and Distributing Electricity were separated- unbundled as the process came to be termed and shared among 6 Generation Companies (GENCOs), 11 Distribution Companies (DISCOs) and one National Power Transmission Company (the National TRANSCO). **Section 8 of the ESPR Act** expressly made for the formation of these companies now with the separate responsibilities of generating, transmitting and distributing Electricity to the end user Nigerian.

Half Measures

Section 31 established the National Electric Regulatory Commission (NERC), and section 32 stipulates its duties much along the lines of NEPA, promotion of effective electricity services but with the exception of those responsibilities passed to the DISCOs, GENCOs and National TRANSCO. It also adds the regulatory responsibility of these bodies, which includes the control of pricing tariffs and resolution of end Customer disputes based on rights and obligations with the Electricity Service Companies (ESCs). But notwithstanding this long and arduous road travelled to get light in 2015, Nigerian end users are just not enjoying the dividends of the effort. The ESCs themselves are squabbling with NERC who has the unenviable responsibility of playing arbiter between them and Nigerians. Why are they underperforming? Well, we may attribute some of this to what some call an "abrupt" withdrawal of Government involvement in the process leading to the ESCs cold-feet towards making investments and NERC's fight to keep tariffs down (and out of economic profitability ranges the ESCs would jointly argue).

The Three Blind Mice and The Elephant in the Room

The problem with the process as it exists today is that the end user Nigerian's experience is not satisfied by breaking down the process into 3 separate parts and the marginal improvements in performance or measurements of one part of the process or another. This is the unfortunate "Elephant in the room" that no one seems to have seen at the start of the process, the fact that each company within the supply chain takes responsibility for only their side of the Electricity Production process making it virtually impossible to hold anyone accountable when the end user Nigerian's service quality is inevitably inadequate.

Everyone passes the blame to the next link in the chain- the DISCOs say the National TRANSCO is to blame for not transmitting the required quota to population substations, the National TRANSCO blames the GENCOs for not producing the agreed quota in order that it transmits and the GENCOs blame the prevailing conditions in the country among which includes breaches of Gas Supply Agreements and an absence of adequate pipeline networks to get the ample Natural Gas fuel to GENCOs Generating Stations to run the combustion turbines that produce the Electricity needed, virtually guaranteeing that Nigerians will never be able to hold anyone responsible for the fact that they are paying for services they are not receiving.

ESCs as businesses will not invest where they cannot see adequate returns on investment, especially where it seems they may have bitten off more than they can chew in some cases. The absence of market forces of demand and supply will also keep them from making any improvements to services, leading to an impasse- consumers have in fact no choice and ESCs don't believe its worth investing… the three blind mice, stand around bewildered, with the great big elephant in the room.

But when in doubt…

We go back to the start. Rule 2: ***"When in doubt remember Rule 1" -It can be done***. First what we need to do appears to be an Opening of the Floodgates- a drastic measure, yes, but one that seems appropriately measured to the importance of the success of dealing with the crisis. In recognition of this fact are two points: firstly the original purpose of the process which we took time to identify above was to create a market-based system for the acquisition of 'Electric Utility Services' from market providers operating a profit-based businesses. So why limit the profitability of ESCs by absolutely controlling their profitability through pricing tariffs?

It is in the public interest to protect Nigerians from abuse, yes, but that is quite different from price control. Ensuring market pricing will encourage ESCs to make the requisite investments. Secondly NEPA was empowered with the sole distribution, transmission and generation of Electricity and even with that comprehensive authority it struggled, therefore only improved accountability will lead to improved services.

True Market Competition

Opening the floodgates will mean allowing strict and fixed financial liability penalties against DISCOs that fail to provide Electricity to Consumers that have paid for the service. This in turn will require that DISCOs can claim the same strict and fixed liability compensation against either the GENCOs and the National TRANSCO, and vice versa if applicable. This will ensure that the ESCs take their responsibilities seriously, they are businesses and therefore motivated by profit- those that cannot "swim will quickly sink" and make way for those that are effective and efficient in providing the services Nigerians want.

It will also make for creative thinking in terms of the ESCs and electricity quotas, where it is clear that a GENCO or the National TRANSCO cannot comply with its required quota the DISCO may want to source alternatively for the quotas that will help it meet its requirement to Consumers and then claim against the failing ESC. This will only be possible if the market is opened further past the current state today. It appears that many of the ESCs bit off more than they could chew and so some of the minimum compliance targets brokered at the start of the privatisation exercise can be leveraged on as means by which to enforce a higher standard of service performance, failing which NERC may have legitimate grounds to open up the market to more licensees and enable improved competitiveness.

To go forward it is important to look back at what the purpose of the privatisation process was- it was to create efficiency in the market, improve competition and advance economies of scale while also introducing the market forces of demand and supply to the industry. If the ultimate goal was to provide uninterrupted Electricity Utility Services for Nigerians then why is it necessary to begin to make compromises towards achieving that standard? Real accountability is what is required following the Telecommunications model- the "Glo effect" dropped the market prices of call tariffs and forced providers to improve the average quality of service. So NERC ought to follow through, set the 'cat' free, allow ESCs to charge market price tariffs, while protecting Consumers if necessary by other means and then enforce strict fixed financial penalties for falling short, and then see how quickly everyone falls in line.