

Re: Amendment Submission: Market Rules

RWG's Recommendations to iSAP

iSAP Ref. No: MR 6

RWG Ref. No: 3

Date Received from iSAP: 06/02/12

Date submitted to iSAP: 28/02/12

Preamble:

As part of the due diligence for the privatization of the PHCN Successor Companies, the BPE organized a Lawyer's retreat between 1st and 3rd December, 2011 for all the Stakeholders. The retreat rose with a request for the amendment of some provisions of the Market Rules. The amendment proposals were filed with the iSAP, which in line with Section 45.5.4 of the Market Rules referred the proposal to the Rules Working Group for recommendation.

Given the circumstances surrounding the proposal, this amendment request was regarded as urgent, and therefore should be treated in line with Rules 45.7.

The RWG met over the five proposals for amendment and recommended as follows:

Rules No: 27.9.1

Amendment Request No. 1:

" TSP charging and billing approach needs to be made consistent as there are conflicting conditions at the moment:

- a. *The retreat agreed that the best approach was to recognize that the TSP would have right to do its own billing, in particular as the units being charged (i.e. MVA) are not standard measured units under the MR.*
- b. *However, the TSP would also have the right to utilize the MO's services during the initial transitional market stage where it will be billing for its services in terms of MWh.*
- c. *This includes clarification of the bank account situation."*

RWG's Opinion:

The RWG Group does not agree with the amendment as proposed for the TSP to have its own right to bill, as doing so will conflict with the centralized settlement functions of the MO as prescribed in Section 27.9.1 of the MR. The RWG recognizes that the TSP has charges that are specific to the TSP such as MVA and MWA charges. The Group however considers that, TSP should forward its MVA readings to the MO just as the Discos and Gencos do for the purpose of billing. The Market Rules has given the MO the exclusive right to bill even on TSP charges. Please see Sections 10.2.9, 10.2.11 and 27.11.5 of the Market Rules for confirmation.

RWG's Recommendation:

Based on the foregoing, the Group recommends that Section 27.9.1 to 27.9.5 should now read:

Rules "27.9.1: As the TSP charges are based on energy inputs into the transmission system and energy off-takes from the transmission system and the Market Operator performs its settlement, billing and cash recovery function, then the"

Rules "27.9.2: TSP shall inform the Market Operator of:

(a) the distributor transmission use of system charge in N/MWh; and

(b) the generator transmission use of system charge in N/MWh."

Rules "27-9-3: The Market Operator shall calculate the monthly transmission usage charges payable by each Participant, which shall be the transmission usage charge for the month, adjusted for errors in or corrections in previous payments as established or approved in previous Final Settlement Statements."

Rules "27.9.4: The Market Operator shall state the transmission usage charge payable by each Participant, together with the supporting data in the Settlement Statement."

Rules "27.9.5: The MO shall invoice each Participant for the applicable transmission usage charges."

Rules No. 27.13.1 to 27.13.11

Amendment Request No. 2:

“Ancillary Services Payment: The current MR permit and require the MO to pay and charge for AS. The retreat agreed that this needs to be fleshed out in the MR.

- a. The SO is to calculate the required AS for the year ahead (and if necessary for shorter period).*
- b. NERC is to agree these AS requirements.*
- c. NERC, SO and Generators are to agree appropriate AS prices.*
- d. The SO is to sign AS contracts with Generators.*
- e. The SO is to instruct AS and check their delivery.*
- f. The Generators are to invoice the SO.*
- g. SO to check and confirm the invoice and notify the MO.*
- h. MO to pay Generators.*
- i. MO to accumulate AS charges and allocate across total annual off-takes from the transmission system and MO to give an AS charge per MWh of off-take.*
- j. MO to charge each off-taker (Discos and directly connected customers) for AS according to their annual off-takes in MWh.”*

RWG’s Opinion:

RWG agrees with the amendment as proposed. However, the Group considers that the step by step procedure on how the Ancillary Services should be paid for as outlined in the Amendment proposal are better captured and made an integral part of the “Payment Market Procedure” instead of the Market Rules under the appropriate caption – for instance – “Ancillary Services Payment”. We recognize these steps as procedural. In line with Section 10.2.2 of the Market Rules, it is the Group’s opinion that this should be sent to the MO to capture same in the “Payment Market Procedure”.

RWG’s Recommendation:

The Group would recommend that:

- (a) Items (a-j) should be included in the Market Payment Procedure
- (b) Section 27.13.1 to 27.13.11 of the Market Rules shall now read:

“27.13: Ancillary Services

Rule **“27.13.1 During the Transition Market the following process shall apply to the payment of and charging for Ancillary Services”**.

Rule **“27.13.2 All contracts for generation shall include payments by the Purchaser for the capacity costs incurred in the provision of Ancillary Services to the System Operator”**.

Rule “27.13.3 Ancillary Services contracts will cover payments from the System Operator to the Generator for increased losses, lost efficiency, increased maintenance, and in the case of Black Start, operational administrative costs and capacity cost of the Black Start equipment.

These costs shall be agreed between the System Operator and the Generators and approved by the Commission”.

Rules “27.13.4 The System Operator shall propose the required amounts of Ancillary Services for the year ahead (or shorter period if necessary) in accordance with the Grid Code and submit these requirements to the Commission for approval”.

Rules “27.13.5 The System Operator shall sign Ancillary Services contracts with the Generators to achieve these amounts of Ancillary Services.

(a) These contracts shall be signed where possible with those Generators capable of providing these services at a lower technical cost.

(b) Sufficient contracts shall be put in place to cover generation outages”.

Rules “27.13.6 The System Operator shall instruct the provision of Ancillary Services by the Generators in accordance with the Grid Code”.

Rules “27.13.7 The System Operator shall monitor and measure the delivery of Ancillary Services in accordance with its capability, the Ancillary Services contracts and the Grid Code”.

Rules “27.13.8 Each month (in accordance with the Settlement Timetable) the Generator shall invoice the System Operator for the Ancillary Services provided”.

Rules “27.13.9 The System Operator shall check the correctness of the invoice and

(a) If the invoice is incorrect, return it to the Generator for correction; or

(b) If the invoice is correct, submit it to the Market Operator for payment confirming that it is

correct”.

Rules “27.13.10 When the Market Operator receives a confirmed Ancillary Services invoice it shall pay it in accordance with the standard payment timetable”.

Rules “27.13.11 The Market Operator shall sum the costs of all Ancillary Services for the month. The costs incurred by the System Operator on procuring Ancillary Services shall be recovered from all Off-takers through a charge, in N/MWh, which shall be calculated for each Billing Period. The applicable charge for every Billing Period shall be collected from each Off-taker in the ratio that the Meter Quantity of that Off-taker bears to the total Meter Quantity of all the Off-takers during the Billing Period.”

Rules No. 35.5.1:

Amendment Request No. 3:

“Generator Ancillary Services duties: The MR need to be clarified in line with

the current AS approach in that:

- a. *Generators are required to provide AS as a Grid Code duty.*
- b. *Distributors are required to pay for the capacity required for this AS provision.*
- c. *The SO is required to pay Generators for the losses and reduced efficiencies associated with this AS provision.*
- d. *It is to be noted that in Nigeria, Generators do not provide AS on an equal basis:*
 - i *Nigeria is a hydro-thermal system hence it is normal engineering and economic practice for hydros to provide the vast majority of reserve and frequency control services;*
 - ii *MVAR voltage control services vary dramatically according to geographical positioning on the network for example, Shiroro power station is required to provide almost continuous voltage control support in the North of the country; hence it is*

economically correct to differentiate between power stations;

and

- iii Black start provision in all countries only come from a small percentage of the generators as it is unnecessary for all generators to provide the service hence payments must be differentiated.*

e. Hence clauses in the MR requiring the compulsory provision of AS as well as those requiring generators to provide AS without additional payment must be adjusted to the current realities of Nigeria”.

RWG’s Opinion:

The RWG agrees with the amendment as proposed. The provision of AS is a duty but does not need to be made an obligation for each market generator. In addition AS have a cost implication for providers and those that provide such services should have a right to recover the costs that they legitimately incur. Sections 3.6.1, 3.6.2 and 4 of the Grid Code list all the Ancillary Services that Generators are expected to provide. Sections 35.4.1(d), 35.5.1(b) & (k) of the Market Rules also specify how the Gencos are to be settled by the MO.

RWG’s Recommendation:

The Group therefore recommends that Section 20.2.1(b) should now read:

“the Seller accepts to provide all Ancillary Services (barring Black Start) defined in the Grid Code during the Transitional Stage, if the contracted Generation has the technical capability and equipment to do so, and this obligation shall be deemed to be incorporated in all contracts;”

Rules 6.3.1

Amendment Request No. 4:

“Physical Balancing between Disco contractual rights and Disco actual off-take:

- a. This has to cover not just Disco off-takes but all physical off-takes from the system including directly connected customers, interconnector flows, and generator and transformer loads when the station is not generating (for a full measurement period, being a month at the moment).*

- b. There is discussion at the moment as to how much of this needs to be done by the MO and how much can be done within contracts by the Bulk Trader.*
- c. At the very least the MO needs to measure physical off-takes from the system and compare them with the off-takers' contractual rights.*
- d. It will also be necessary for the MO to calculate both the average generation price for the month (at generator terminals) and the average delivered price for the month (at distributor delivery points).*
- e. It may be that the MO will be required to manage a distributor balancing contract on the basis of the previous two (2) items."*

RWG's Opinion:

The RWG does not completely agree that this amendment should be made at this stage of the Market. The implication of this is that the Market will require more comprehensive metering than is currently available especially at interface metering points of the off-takers. The proposal also implies the commencement of a Balancing Market, a provision which Section 6.5 of the Market Rules says is for the Medium Term Market. The RWG however agrees that the MO needs to start making preparations for the Balancing Market as noted in Sections 6.4.5 as part of preparations for the Medium Term Market even though the full take off of this is still some time in the future. It is of worth to also note that Section 6.3.1 of the Market Rules emphatically rules out any centrally administered balancing mechanism for the Transitional Stage Market. However, in line with Section 6.3.2 of the Market Rules, the MO may be advised to develop a Market Procedure for management of inadequate supply and shortage conditions during the Transitional Stage.

RWG's Recommendation:

"The Group recommends that the status quo be maintained until when all trading points have all been metered adequately."

Rules 43

Amendment Request No. 5:

Submission of Complaints

"Parties are required to complain to the MO or SO under the MR. This must include the right to follow up the complaint to iSAP and then the regulator

if responses are unsatisfactory”.

RWG’s Opinion:

The RWG agrees that the Regulator in the NESI is the NERC. Disputes or complaints should therefore have the Regulator as the final arbiter. There is however no clear definition for complaints in the MR though complaints on settlement are referred to in the MR. Disputes, on the other hand, already have a clear process for resolution. Sections 43 generally and 43.5 in particular of the Market Rules spell out how Disputes are to be resolved between Participants. The RWG believes that the existing Dispute Resolution and Arbitration Procedures are adequate for the operation of the MR.

RWG’s Recommendation:

“The Group recommends that the provisions in the Market Rules dealing with complaints and disputes are adequate and need no further amendment”.