

iSAP's Report to NERC on the BPE's request for amendment of the Market Rules

Reference: iSAP/NERC/MRA/12/01

March 2012

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1. Introduction

- 1.1 Following a Lawyers Retreat held by the BPE to review the various industry agreements it was resolved that amendment proposals for the review of the Market Rules should be submitted to the initial Stakeholder Advisory Panel. In this vein, the BPE had submitted a formal request for the amendment of the Market Rules (see copy of request attached).
- 1.2 iSAP subsequently met on December 21, 2011 and after deliberations resolved to forward the request to the Rules Working Group (RWG) for its review and recommendations in line with the provisions of Rule 45.5.4 which states that *“the Stakeholder Advisory Panel shall refer any proposal for amendment of these rules which was not presented by the Rules Working Group to the Rules Working Group for its recommendations thereon.”*
- 1.3 The RWG after thorough review of the amendment request submitted its recommendations to iSAP (see copy of the RWG’s recommendations attached). iSAP subsequently met on March 2, 2012 and deliberated on the recommendations. This report presents the final recommendations of iSAP for consideration and approval of NERC pursuant to Rule 45.5.16 of the Market Rules.

2. A summary of the procedure followed by iSAP

- 2.1 The procedure involved forwarding the request for amendment to the RWG for thorough review. The RWG is comprised of representatives from the TCN (Market Operations, System Operations, Transmission Service Provider), Successor GENCOS, IPPs and DISCOS. The Chairman of the RWG is a representative of the IPPs (Mr. Seun Faluyi of Hudson Power Ltd).
- 2.2 The RWG held a retreat to deliberate on the issues raised by the amendment request and subsequently forwarded its recommendations to iSAP. Pursuant to Rule 45.5.11, the Chairman of the RWG was subsequently invited to the iSAP meeting of March 2, 2012 where he made presentation to clarify the basis of their recommendations. iSAP then deliberated and

agreed on each recommendation including the wording of the proposed amendment. NIAF consultants (represented by Maurice Smith) assisted both the RWG and iSAP during the review process.

2.3 It is imperative to mention that iSAP did not publish the particulars of the amendment submission and receive comments from participants thereon in line with Rule 45.5.9. However, this is not considered significant considering the urgency of the amendment request occasioned by the ongoing privatization exercise and the fact that all stakeholders were involved in the Lawyers Retreat from where the amendment originated. Also, both the RWG and iSAP are composed of the representatives of all market participants.

3. Suggested timeframe for implementation of amendment

3.1 Considering the need to allay investor concerns from the ongoing privatization exercise, iSAP recommends that the proposed amendments as recommended in this report be approved for implementation with immediate effect.

4. Summary of any objections to the amendment submission

4.1 There was no objection to any of the items in the amendment request.

5. Summary of the recommendations of the Rules Working Group

5.1 The following shows a summary of the amendment request and the recommendations of the RWG.

S/No	Amendment Request	RGW Recommendation	iSAP Position
1	<p>TSP charging and billing approach needs to be made consistent as there are conflicting conditions at the moment:</p> <p>a) The retreat agreed that the best approach was to recognise that the TSP would have the right to do its own billing, in particular as the units being charged (i.e. MVA) are not standard measured units under the MR.</p> <p>b) However, the TSP would also have the right to utilise the MO's services during the initial transition market stage where it will be billing for its services in terms of MWh.</p> <p>c) This includes clarification of the bank account situation.</p> <p>"TSP charging provisions are inconsistent and potentially out of line with potential utility practice"</p>	<p>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 MWAR 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.</p> <p><i>Section 27.9.1 to 27.9.5 should now read:</i></p> <p>Rules "27.9.1: <i>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</i></p> <p>Rules 27.9.2: <i>TSP shall inform the Market Operator of:</i></p> <p><i>(a) the distributor transmission use of system charge in N/MWh; and</i></p> <p><i>(b) the generator transmission use of system charge in N/MWh."</i></p> <p>Rules 27-9-3: <i>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."</i></p> <p>Rules 27.9.4: <i>The Market Operator shall state the transmission usage charge payable by each Participant, together with the supporting data in the Settlement Statement."</i></p> <p>Rules 27.9.5: <i>The MO shall invoice each Participant for the applicable transmission usage charges."</i></p>	<p>iSAP agrees with the recommendations of the RWG. The TSP should continue to provide data to the MO to enable billing and settlement as is currently done.</p>

S/No	Amendment Request	RGW Recommendation	iSAP Position
2	<p>Ancillary Services payment: The current MR permit and require the MO to both pay and charge for AS. The retreat agreed that this needs to be fleshed out in the MR:</p> <ul style="list-style-type: none"> 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. <p>“Ancillary Services provisions do not give sufficient detail on the payment and charging process”</p>	<p>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 it in the “Payment Market Procedure”.</p> <p>The RWG recommends that:</p> <ul style="list-style-type: none"> (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 should now read as follows: <p>27.13: Ancillary Services</p> <p>Rule 27.13.1 <i>During the Transition Market the following process shall apply to the payment of and charging for Ancillary Services.</i></p> <p>Rule 27.13.2 <i>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.</i></p> <p>Rule 27.13.3 <i>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.</i></p> <p>Rules 27.13.4 <i>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”.</i></p> <p>Rules 27.13.5 <i>The System Operator shall sign Ancillary Services contracts with the Generators to achieve these amounts of Ancillary Services.</i></p>	<p>iSAP agrees with the RWG. An alternative approach is for Generators to contract for provision of Ancillary Services in the PPA they sign with the Bulk Trader or purchasing DisCo.</p>

		<p>a) <i>These contracts shall be signed where possible with those Generators capable of providing these services at a lower technical cost.</i></p> <p>b) <i>Sufficient contracts shall be put in place to cover generation outages.</i></p> <p>Rules 27.13.6 <i>The System Operator shall instruct the provision of Ancillary Services by the Generators in accordance with the Grid Code.</i></p> <p>Rules 27.13.7 <i>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.</i></p> <p>Rules 27.13.8 <i>Each month (in accordance with the Settlement Timetable) the Generator shall invoice the System Operator for the Ancillary Services provided.</i></p> <p>Rules 27.13.9 <i>The System Operator shall check the correctness of the invoice and</i></p> <p>a) <i>If the invoice is incorrect, return it to the Generator for correction; or</i></p> <p>b) <i>If the invoice is correct, submit it to the Market Operator for payment confirming that it is correct”.</i></p> <p>Rules 27.13.10 <i>When the Market Operator receives a confirmed Ancillary Services invoice it shall pay it in accordance with the standard payment timetable.</i></p> <p>Rules 27.13.11 <i>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.</i></p>	
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S/No	Amendment Request	RGW Recommendation	iSAP Position
3	<p>Generator Ancillary Services duties: The MR need to be clarified in line with the current AS approach in that:</p> <ul style="list-style-type: none"> a) Generators are required to provide Ancillary Services 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: <ul style="list-style-type: none"> (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) MVA_r 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 	<p>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.</p> <p>The Group therefore recommends that Section 20.2.1(b) should now read:</p> <p>Rule 20.2.1 (b) <i>“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;”</i></p>	<p>The Panel agreed with the recommendations of the RWG. The Panel further resolved that generators have the right to not only recover the costs that they legitimately incur as a result of providing AS but that they also have a right to make a reasonable return on capital employed in the provision of AS.</p>

	<p>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.</p> <p><i>“Ancillary Services duties are not in line with appropriate practice for the Nigerian power system”</i></p>		
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S/No	Amendment Request	RGW Recommendation	iSAP Position
4	<p>Physical Balancing between Disco contractual rights and Disco actual off-take:</p> <p>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 station transformer loads when the station is not generating (for a full measurement period, being a month at the moment).</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>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.</p> <p><i>“MR for the Transition Stage allow for the introduction of balancing though some form of contractual mechanism. However, it is now clear that balancing is now needed for off-takers hence MR provisions</i></p>	<p>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 that Rule 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.</p> <p>RWG's Recommendation:</p> <p>The Group recommends that the status quo be maintained until when all trading points have all been metered adequately.</p>	<p>iSAP agrees with the RWG's recommendation to reject the request to amend Rule 28.1.2 of the Market Rules. The issue can be reconsidered when there is comprehensive metering in the market.</p>

	<i>must be put in place</i>	
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S/No	Amendment Request	RGW Recommendation	iSAP Position
5	<p>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. <i>“Participants’ complaints process is restrictive”</i></p>	<p>The RWG does not agree that it is necessary to make this amendment.</p> <ul style="list-style-type: none"> • Disputes or complaints should have the regulator as the final arbiter. • There is however no clear definition for complaints in the MR though complaints on settlement issues are referred to in the MR. • Disputes, on the other hand, already have a clear process contained in the existing Dispute Resolution and Arbitration Procedures. • The RWG believes the existing Dispute Resolution and Arbitration Procedures are adequate for the operation of the MR. • The requested change to Rule 42.3 is thus recommended for rejection. 	<p>iSAP agrees with the RWG’s recommendation to reject the request to amend Rule 42.3 of the Market Rules. The Dispute Resolution processes in the MR are adequate.</p>

6. Recommendations of iSAP with proposed text of the amendment

Amendment Request No. 1	<i>“TSP charging provisions are inconsistent and potentially out of line with potential utility practice”</i>
<p>iSAP’s Recommendation to NERC: The requested amendment at this time is not necessary and should be declined. The TSP should forward its MVA readings to the MO just as the Discos and Gencos do for the purpose of billing.</p>	

Amendment Request No. 2	<i>“Ancillary Services provisions do not give sufficient detail on the payment and charging process”</i>
<p>iSAP’s Recommendation to NERC: The requested amendment should be approved. However, the step-by-step procedure should be forwarded to the Market Operator for inclusion in the Market Payment Procedure.</p> <p>Accordingly, Rules 27.13.1 to 27.13.11 of the Market Rules should now read as follows:</p> <p>27.13: Ancillary Services</p> <p>Rule 27.13.1 <i>During the Transition Market the following process shall apply to the payment of and charging for Ancillary Services.</i></p> <p>Rule 27.13.2 <i>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.</i></p> <p>Rule 27.13.3 <i>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.</i></p> <p>Rules 27.13.4 <i>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</i></p>	

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.*

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

- c) *If the invoice is incorrect, return it to the Generator for correction; or*
- d) *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.*

Amendment Request No. 3	“Ancillary Services duties are not in line with appropriate practice for the Nigerian power system. The MR need to be clarified in line with the current AS approach”
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iSAP’s Recommendation to NERC:

The requested amendment should be approved. 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 and earn a reasonable return. Sections 3.6.1, 3.6.2 and 4 of the Grid Code list all the Ancillary Services that Generators are expected to provide. Rules 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.

iSAP therefore recommends that Rule 20.2.1(b) should now read as follows:

Rule 20.2.1 (b) *“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;”*

Amendment Request No. 4	<i>“MR for the Transition Stage allow for the introduction of balancing though some form of contractual mechanism. However, it is now clear that balancing is now needed for off-takers hence MR provisions must be put in place”</i>
<p>iSAP’s Recommendation to NERC: The requested amendment of Rule 28.1.2 at this time is not necessary and should be declined. The issue can be reconsidered when there is comprehensive metering in the market.</p>	

Amendment Request No. 5	<i>“Participants’ complaints process is restrictive”</i>
<p>iSAP’s Recommendation to NERC: The requested amendment of Rule 42.3 at this time is not necessary and should be declined. The Dispute Resolution processes in the MR are adequate for now.</p>	

7. A record of the vote each member of iSAP

7.1 All decisions were unanimously arrived at:

8. A summary of any objections raised by any member of iSAP

8.1 The representative of the TSP, Engr. B.O.J. Dada, was the only member who raised an issue on the RWG’s recommendation for the rejection of the amendment request regarding the *TSP Charging and Billing Approach*. He agreed with the proposal for the amendments of the MR to enable the TSP have freedom of invoicing and receiving payments directly. His position was premised on the TSP not having sufficient funds for its operations under the current arrangement where the MO does settlement and billing on its behalf. It is pertinent to note that after further deliberations he did not raise any objection to the resolution of the Panel rejecting the amendment proposal.

9. Attachments:

9.1 Copy of Amendment Request (Appendix 1)

9.2 Copy of Rules Working Group's Report (Appendix 2)

9.3 Minutes of iSAP Meeting on the Amendment (Appendix 3)



Abdulkadir Shettima
Secretary (iSAP)



Rumundaka Wonodi
Chairman (iSAP)