

Electricity tariffs: low or high, right or wrong?

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If electricity must be available, accessible and affordable to every Nigerian – and it must – then massive natural gas and electricity infrastructure construction and upgrades must happen now, and they will cost quite a lot of money annually for a long time to come. To guarantee that investment, our electricity tariffs must be set right. Between 1987 and 2007 Nigeria acquired under 3,500MW of new capacity, about 25 percent of which is constantly unavailable due to natural gas and transmission constraints. Since 2007, nothing – even though each year without at least 2,000MW of new capacity being put into the national grid is a year of lost opportunities and irreparable damage in every sector.

Assuming a conservative average of \$1 million each for generation and related transmission and distribution capacity respectively, this means \$6 billion per annum (in today's dollars) not invested. If, like me, you want to catch up on the last 30 years, that's \$180 billion not invested during the past 30 years! So, while the surprise and anger that followed the recent increase in average electricity tariffs from ₦8.50 to a still below cost ₦10.00 per kilowatt-hour is understandable, the inexorable reality is that our national foreign and domestic aspirations are unsustainable without providing all Nigerians (not merely the small minority urban elite and middle class who have private generators) with steady, quality electricity.

Many will assert, correctly, that the Nigerian Electricity Regulatory Commission (NERC), like any other electricity regulator, exists ONLY to serve the public interest. Few will consider, however, that “public interest” includes efficiency of both seller AND buyer. “Public interest” includes right pricing of the product not merely so that the seller recovers its cost plus a reasonable profit, but also that the buyer does not waste the product. This is an economic and a regulatory truism, with the added benefit that for the under-privileged in our society, NERC is also statutorily required to set “lifeline tariffs”, paid for via a cross-subsidy funded by the federal and state governments and richer consumers.

The problem arises when public sentiment, pushed by political opportunism and historical leadership failure, seeks to disable the regulator from setting tariffs at the right levels. This makes it very difficult to align private behaviour with public interest. Unfortunately, wrong electricity tariff levels are the norm in Nigeria for various reasons including, first, the erroneous belief that “consumer protection” means protection against appropriate rates rather than protection against economic and technical inefficiency. Second, justifiable public belief that increased revenues will disappear into private pockets. Third, another belief, this one illogical, that before rates go up we must “see the electricity first”; conveniently forgetting that electricity is a manufactured product with very high up-front capital costs. Fourth is the entitlement mentality (particularly with the urban elite and middle class) that free electricity is a right.

Fifth, and perhaps the biggest reason, is the preference of past political leaders to keep rates low and thereby avoid “rate shock”, an emotive but difficult to define phrase. Section 32(1)(d) of the Electric Power Sector Reform Act, 2005, sets the objective for NERC to ensure that “prices are fair to consumers and are sufficient to allow investors finance their activities” and make “reasonable earnings for efficient operations”. Section 76(2) also requires us to set electricity tariffs that allow “efficient operators... to recover the full costs of its business activities, including a reasonable return on capital invested in the business....” Some would be tempted to paraphrase Winston Churchill and suggest that these statutory provisions constitute an oxymoron wrapped

in a paradox. They would be wrong. NERC will do its duty but to do so, we recognise that we must also do a number of things.

First, electricity licensees are being made more responsible. So, the 11 electricity distribution companies must now honour their license terms and conditions and focus strongly on improving metering, billing, payment and customer care practices. In addition, all licensees must disclose details of their allowed capex plans on projects so that we all ensure they are transparently and efficiently procured under NERC's watchful eye. Second, NERC itself is being properly resourced with well-educated, highly motivated, properly trained and ethically grounded staff to evaluate and monitor multibillion-dollar investments annually. Third, NERC, recognising that competent tariff design is a critical adjunct of consumer protection, is also reordering its practices and rule-making so that tariff design focuses on economic and technical efficiency and demand-side management (for instance, rates should be based on time-of-use charging instead of being flat).

Fourth, NERC is engaging our political leaders at all levels to achieve understanding about the policy foundations for tariff design and the Commission's important statutory duty in this regard. Considering these things it must do, we would be correct in concluding that NERC, as with all utility regulators the world over, is the recipient of a unique set of rights and duties. Thus, in implementing policy, it is a delegate of the Executive; in making regulations, it is a delegate of the Legislature. As a "quasi-judicial" body, it is a delegate of the Judiciary. This wide range of authority, function and responsibility compels the duty on NERC to act ALWAYS in the public interest. As we in NERC strive to grapple with our onerous but necessary duty, one is compelled to call on all who still mean well for our country to pause and reflect on a few questions.

By what magic, whether oyinbo or African jazz, do we expect non-existent electricity to appear without investment? How many of us are willing to get into a business in which we are CERTAIN to lose money? Are Nigerian electricity tariffs too low or too high? Or is it more a question of getting the pricing right, thereby attracting much-needed investment; or getting it wrong, and thereby deterring that investment? Assuming we all desire to see a "Great Nigeria", how far do we think nascent "Great Nigeria" will go without electricity? Can we sober up, take politics and opportunism out of this discussion and reflect on the true public interest?

Do we want electricity tariffs set high or low? Or do we want them set right or wrong? Are we aware that investment deferred is investment far more expensive when finally incurred? As we consider, I do believe we will conclude that if electricity must be available, accessible and affordable to every Nigerian – and it must – then massive natural gas and electricity infrastructure construction and upgrades must happen now, and they will cost quite a lot of money for a long time to come.

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