



**“DEVELOPING AND SUSTAINING 21<sup>ST</sup> CENTURY INFRASTRUCTURE”**

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**The linkage between infrastructural develop & sustainable power delivery:**

Generally, public electricity anchors public infrastructures. Long suffering Nigerian's have come to realize this fact through the sad unavailability of the most basic of infrastructures and the cumulative cost of such to the economy; metro light rail systems, automated public toilets, computerized public informative systems, advanced e-payment systems, e-libraries, functional public buildings including recreation centres, the list is endless. The few infrastructural facilities that are in place and operational are either epileptic in service, or are extremely expensive to operate given that they must more often than not rely on stand-by power generators.

Crucially, investors have continued to shy away from investing in the Nigerian infrastructural sector given that naturally, infrastructures;

- Provision is characterized by high set-up cost, hence both lenders and investors must be satisfied as to the long-term viability which in turn is predicated upon the availability sufficient public power.
- They are often characterized by indirect investment returns, e.g. the practicality of periodic multi-use travel tickets will solely depend on an efficiently run comprehensive metro mass transit system which in turn depends on an uninterruptible computer network.
- They are characterized by long gestation periods, thus they are only attractive to investors when the public power system is adequate and reliable, so as to lessen operational costs, while preserving and prolonging the life of materials. Note that

the warranties and guarantees of machineries are strictly subject to public power application.

- Their provision also generates externalities which the producer can only be able to internalize in his pricing structure if allied services are predictable e.g. the provision of an efficient airport shuttle train service will totally depend on a combination of the promptness of air management system and public railway management system- these in turn are only efficient under uninterruptible power supply system.

As most countries with sufficient and reliable public power have continued to prove, 21<sup>st</sup> century infrastructures can easily and affordably be provided and sustainably maintained. Simply put, public electricity interconnects, guarantees, anchors and overarches infrastructural provision and maintenance. Sadly, it is the current less than satisfactory state of public power provision in Nigeria that has kept our country from being edified with these infrastructures which 21<sup>st</sup> century engineering bestows. It is equally the same power insufficiency that is keeping back the populace from enjoying the amenities thereof, which are integral to modern living. As regulators of the power sector, whose elementary duty it is to regulate for on-demand electricity, we empathize with the long suffering public for all sectoral shortcomings. To the frustrated entrepreneurial community whose businesses and concepts have either been still-birthed, in comatose, operating below par or hemorrhaging capital, the power regulator equally apologizes. Though it is known that the problem of power insufficiency has been long running in the country, hence the public apathy towards the government's previous monopolistic way of running the Nigerian Electricity Supply Industry (NESI), yet it is quite understandable that following decades of lame excuses and unfulfilled promises, the

citizenry simply want the long overdue public power supplied! As I put it in my book, *Privatization & Public Good*, "focus should be more on the norm governing the production and circulation of goods than on the formal status of the institution, whether a government body or private institution". It is in apparent adherence to the above reasoning that we at NERC while on one hand have opened up the sector to a market based competition that will spur investments, are on the other hand nurturing regulated and disciplined government participation in the power supply business through NIPP's and various state governments' participation in the on-going reform process, also, the federal government is involved at the transmission end.

### **Further Societal Inhibitions to the development of 21<sup>st</sup> Century Infrastructure**

Given that it is daunting and economically illogic to set up and operate public infrastructure in the absence of reliable public power provision, it then becomes understandable why the citizenry of a country like Nigeria who cannot yet solve its public power crises will continue to be denied the services and benefit of these essential indicators of modern living. This is owing to the fact that in the face of other less risky and more predictable investment opportunities offering the promise of quicker returns, few private investors are willing to embark on infrastructural investment. This unfortunate situation inevitably leads to a situation where there is nearly an exclusive concentration of infrastructural provision in the hands of the public sector in Nigeria. This is in turn evidenced in the abysmal quality levels and high rate failures in the provision of such services. These challenges are further exacerbated by the large size of our society both in terms of population and in land mass, it is increasingly difficult to keep pace with adequate provision and maintenance of infrastructure. Perhaps it is to this frustrating effect that I argued in 2007 in my book, *Privatization & Public Good*, that "given the state of economic stagnation and the woeful performance of public

enterprises in Nigeria, the prescription of privatizing these enterprises is largely sound. Obviously, the point I was making was that government run but underperforming crucial sectors of the economy like the NESI should be privatized to allow private participation and investment in-flow.

Another angle to the theory of abysmal failure of the Nigerian government in the area of operating a public power supply outfit are the ill-perceptions of the;

- a) The citizenry who have embedded opinion that public goods are social/ welfare services which must not be paid for.
- b) Governments equally treat public goods as political instruments and pander to the above by using public goods (pipe-borne-water, electricity, roads e.t.c.) to achieve political objectives through subsidy and other forms of control.- I wrote extensively on this issue in 2007, and it is not the subject area of our discuss today.

### **NERC is Precipitating the Institution of 21<sup>st</sup> Century Electricity Infrastructure via Transformational Sectoral Regulation**

What we as the sector regulators have found is that behind the years of declining standards, among many other ills was poor management. The Ministry of Power which then served as the regulator lacked the overall capacity to strategize for, and run an efficient power sector.

To bring the infrastructure of the Nigeria's power sector into the 21<sup>st</sup> century, NERC had provided management advice, capacity building and best practice counseling to the then unbundled entities of the erstwhile PHCN whom were then operational as limited liability companies, but have been recently successfully handed over to new private owners. The resultant effect is that for the first time in NESI history, electricity operatives are now producing realistic and achievable business plans and they are strictly been regulated and monitored to ensure they adhere to them. There is also strong emphasis on a well-managed distribution of evacuated power, while participants in the sector are now oriented towards the improvement of customer care and support services.

We are aware that the benefits of a more efficient electricity sector will be felt across all spheres of Nigerian society. Schools, hospitals and other public services will be able to function more reliably. The country's desperately dangerous highways will become safer as street and traffic lights will become operational at a fraction of their current cost. Equally there will be environmental, health and safety gains as the need for emissions-producing fuel generators will dissipate.

### **Some Challenges before NERC in Engendering the Rapid Development of 21<sup>st</sup> Century Electricity Infrastructure**

- *NERC must ensure a stable and competitive investment framework that sufficiently rewards adequate investments in a timely manner;*

Considerable investments in new power generation will be required over the next decade to meet increasing demand and replace ageing generation units, it is NERC's duty to incentivize these 'considerable investments' through smart regulations.

- *Educating successive governments on the need to pursue the benefits of competitive markets to allow for more efficient and more transparent management of investment risks;*

It is NERC's opinion that competition in a well-designed and effectively liberalized market will incentivize the efficient use of resources and investments in power generation and supply.

However, in order to deliver its anticipated benefits, liberalization requires unalloyed implementation and long-term commitment by governments. While it must be pointed out that competition cannot always stand away from the rest of the economy, it is advised that when required, governments should pursue intervention in ways that complement the market and facilitate its functioning.

- *Successive governments must ensure continue to ensure the independence of the regulator and system operators, NERC on its part must establish transparent market rules that are clear, coherent and fair and seen to be devoid of political meddling;*

**Transmission System Operators** are custodians of a competitive electricity market in Nigeria and must therefore be in actual fact separate from generation and retail supply (this has to a large extent been achieved).

- *Governments even when under the most severe of political pressures must refrain from price caps and other forms of market distortions;*

Generally, wholesale electricity prices are inherently volatile as our adopted Multi-Year-Tariff-Order (MYTO) or any other price setting system is set to respond to certain relevant market indicators. To the above effect, price fluctuations are an integral part of a competitive market, and hence, regulated tariffs such as price caps which undercut market prices do seriously undermine market confidence hence they must be resisted.

- Best practices for governments in addressing systemic market problems, is to ensure the true independence of the regulator, trusting and empowering the regulator to improve the market design if defective, strengthening of competition and Anti-trust laws, breaking and diluting the dominance of large market players.

Finally, NERC has designed for implementation, clearer and smarter procedures for approval of new electricity infrastructure.—undue delays caused by slow licensing and incompetent authorization procedures have frustrating effects on the market, and are barriers to apt investment. We do crave your further patience, understanding and support while we nurture these critical plans to fruition.

**Thank you**





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