

NERC's STRATEGIC SECTORAL PRIORITIZATION ACTION PLAN FOR POST PRIVATIZATION OVERALL DEVELOPMENT 2014

Being a Five Pronged Strategic Industry Capacity
Development Plan

by

Dr. Sam Amadi

Chairman & CEO, NERC

Feb, 2014



A Five Pronged Prioritization Action Plan for 2014

- Here, I will expose & discuss five sectoral constraints with potential capacities to mar the expected gains of the reform we midwife as industry regulators .
- I also provide potential Action Plans (AP) to tackle the constraints & challenges herein identified & discussed.
- I hope that via the medium of this presentation, I will provoke thoughtful responses, inputs & suggestions on my suggested ways forward



Priority No 1:

Resolving the Gas to Power
Crisis in the NESI

Gas: Statement of Problem

- The goal of adequate supply of electricity post privatization depends on availability of gas for:
 - ❖ (i) Power Plants already operational and,
 - ❖ (ii) Proposed Power Plants.
- This is because, the electricity market in Nigeria depends on gas as feedstock for about 85-90 % of generation capacity.
- The problem however is that the regulator of electricity is not the regulator of gas

Gas: Statement of Problem...

- Lack of transparency in the management of oil and gas resources in Nigeria
- Holds down capacity development in the power sector by:
 - ❖ Making it difficult to make accurate and bankable prediction about the amount of gas that will be available to gas plants in the years ahead.
 - ❖ This planning and projection prohibition stalls & stifles sectoral financial revival.

Gas: Statement of Problem...

- The success of electricity market in Nigeria is thus threatened by the muddle in the gas market.
- The muddle is also compounded by the weak commercial framework of gas supply to power
- ❖ Lack is defined by largely in enforceable or unenforced gas supply and transportation contracts
- ❖ Lack is equally compounded by a price that is aligned with export price and prices for other industries.

Statement of Solution

- **first, we need a high profile consultancy to carry out a holistic study & crystal of:**
 - ✓ the actual situation & state of gas supply to power,
 - ✓ Ascertain what amount of gas can be available in the next 5 years
 - ✓ Including where the supply will come from
 - ✓ and also, who will provide it.

Expected Derivables from the Proposed Gas to Power Consultancy Study

- **The review and analysis will establish:**
 - how gas resources are managed in the country
 - what it means for the goals of the power sector reform
- **It will also ;**
 - prescribe strategic policy and regulatory initiatives that needs to be implemented to ensure that there will be enough gas supply to power plants
 - The consultancy will ultimately aim at ensuring sustainability of the reform in the power sector

Second Step : Technical Gas Workshop...

- We need to organize a strategic technical workshop on gas.
- *The workshop will;*
- Bring together key players in the gas business to commit them to the objectives of the reform
- Generate from the interaction innovative solutions to crack the public sector mess of the gas market
- Fix a pricing framework for gas to power
- Establish commercially bankable and enforceable gas contracts



Priority No 2:

Unleashing the Capacity of DISCOs to
Procure Embedded Generation



Statement of Problem

- Procurement of power for retail by Discos to customers remains one of the major and more urgent challenges of the new NESI.
- Post privatization success will depend on how quickly the DISCOs can begin to improve electricity supply to their customers.

Statement of Problem...

- The proposed improvement in services has two main components;
- **Improvement of customer care:**
 - ✓ customer care, including:-
 - ✓ metering,
 - ✓ accurate billing and,
 - ✓ prompt and effective resolution of consumer complaints.
- **Perhaps most crucial is the need to:**
 - ✓ The need to substantially increase the number of hours that customer have uninterrupted supply of electricity.

Statement of problem...

- In the 1st few weeks after privatization, generation capacity dropped significantly because gas supply to power plants dropped significantly.
- This was attended by very poor power supply.
- We can only hope for increase in capacity beyond the 4500mws highpoint of Dec 2012, only if new owners of the PHCN successor companies invest in capacity recovery and;
- the NIPPs are fully harvested to the grid.

Statement of problem...

- Assuming new Discos owners invest in in capacity recovery, & NIPPs are fully harvested, we will not get to 10,000MWs by 2015!
- We need at least, 10,000mws to guarantee adequate power supply
- Also, we will not expect Bulk Trader new capacity until sometime in 2017
- **THEREFORE,**
- DISCOs therefore need to devise a strategy to increase the amount of power they have to sell to their customers

Statement of Solution

The cure for generation capacity problem in the short-run in the Nigerian electricity Market is via creative operationalization of the Embedded Generation regulation issued by NERC in 2012.

- The regulations provides;
 - ❖ technical,
 - ❖ commercial and,
 - ❖ legal framework for distributed generation in any part of Nigeria

Statement of Solution...

- **Embedded Generation Regulation potentially allows:**
 - The Discos to embed power in their network without waiting for the Bulk Trader to conclude due diligence and sign PPA with guarantees.
 - It also overcomes the constraints of insufficient transmission network.

Statement of Solution...

Distributed generation in the NESI will require two critical drivers:

- ✓ The readiness and willingness of the management of the discos to seek out additional power to sell and,
- ✓ the enthusiasm of local and international investors (particularly local investors) to invest in modular power plants for distributed generation.

Involvement of gas suppliers will be critical to the success of this initiative for Discos , particularly, in Southern Nigeria.

Statement of Solution...

- The proposed interventions to realize this priority are as follows:
- Training of critical Disco officials on the ***technical*** & ***commercial*** frameworks of the EG regulation
- Clarifying the procurement process for embedded generation for Discos in line with the provisions of the new bulk procurement regulation
- Strategy workshops in Lagos and Kaduna for identified potential investors, & management of Discos to incubate business relationships that can lead to project development
- Establish an EG Business Development Group to promote sustainable investment in the scheme.

Priority No, 3 for NERC

- Clear Benchmarking & Monitoring of DISCOs & GENCOs Performance

Statement of Problem:

- Clear Benchmarking and Monitoring of DISCO and GENCO Performance:
- One of the key challenges to reliable and adequate electricity supply after privatization is **weak quality control**
- It must be noted that NERC has mandate to determine both
 - prices and
 - quality of service
- While guaranteeing investors, the recovery of costs and return on investment, we must equally,-
- guarantee to consumers affordability and quality of service

Meeting/ Balancing the Consumer Vs Investor Challenge

To effectively achieve the above, we must effectively;

- benchmark prudent investment in:
 - ✓ the network and,
 - ✓ monitor service delivery, especially by the Discos.
 - ✓ while the main rationale for the privatization of the electricity sector is to incentivize efficiency, Discos by their very nature remain at the heart of the electricity supply value chain.
 - ✓ Monitoring of the efficiency of Discos thus becomes central to NERCs success

Expected outcome of efficient Disco monitoring

- In the Technical world, this efficiency would be evaluated in terms of drastic reduction of ATC&C losses
- However, from a customers perspective, the same efficiency will be evaluated in terms of reliable & adequate supply of power to households and businesses.
- In all, we must always remember that Privatization was sold to the public on the basis that private sector ownership will result in improved efficiency which will result in better electricity supply.

NERC has Statutory Duty to Effectively Monitor the Market

- If private sector ownership will result in improved efficiency & ultimately in better electricity supply, then:
- NERC must action its mandate to ensure efficient electricity market in Nigeria
- In exercise of that mandate we have developed regulatory frameworks that commit discos and gencos to efficient service delivery
- Our bane however, remains the lack of quality benchmarking in the industry.

We Must Clarify & Emphasize Our Industry KPIs

- To arrest the state of poor quality benchmarking in the industry;
- We must step up & emphasize our industry-wide KPIs as the standard bearer in the new NESI
- Our KPIs need to be clarified to ensure they capture the real indicators of quality service delivery in the industry at this early/ transition to competition stage
- The problem is that we all currently lack the culture and mechanisms for effective monitoring of the discos and gencos to ensure quality services at all times

Statement of Solution:

To resolve all the above KPI, Monitoring & quality shortcomings, we must:

- **Clarify & strengthen** the key performance indicators to make sure they fully capture expected quality of service
- **Develop** intelligent Benchmarks and procedures that enable effective gathering of information and data
- **Build** the capacity of staff, especially those in the zonal offices to monitor and report effectively
- **Establish** effective enforcement process including punitive sanctions

Priority Four (No4)

Streamlining Processes for Cost
Recovery & Good Corporate
Governance for the Utilities and
Market Concentration

Statement of Problem

- The main cause of the collapse of the electricity industry in Nigeria is the lack of good corporate governance.
- There are many electricity industries in the world where publicly owned utilities still dominate and they are performing well. In those industries the rules for the management of the utilities are such that engender efficiency
- The private firms that acquired the PHCN successor companies are mainly Nigerian companies that have largely bad corporate culture

Statement of Problem

- We have to ensure that the corporate culture of the new electricity market is such that will lead to efficient electricity market.
- We know from evidence of privatization of utilities across the world that the real determinant of success post-privatization is the quality of the rules and institutions of the market,
- especially those rules that regulate corporate governance.

Statement of Solution

To effectively foolproof & ring fence the emerging industry from the menace of bad governance culture, we must:

- -**finalize** regulations on regulated investment and procurement in the NESI
- -**finalize** regulation for rate review application
- -**finalize** framework & benchmarks for effective application of fit and proper test
- -**develop** regulatory framework for corporate governance, to detect conflict of interest situation & protect competitive electricity market

Priority Five (No5)

- Clarifying and Institutionalizing the Procedure for Bulk Procurement of Generation Capacity in the NESI

Statement of Problem

- In the past NERC has licensed applications that were unsolicited with the result that oftentimes the applicants have no ready gas supply or transmission facilities for their proposed power plant.
- The absence of these often lead to difficulty in obtaining PPAs so as to access funding for project development.
- This process is also inefficient & does not guarantee systematic and planned capacity development
- In remedy, we have approved a bulk procurement regulation that requires competitive bidding for new capacities for the grid.

Statement of Solution

The Bulk Procurement Regulation which should stem the old tide is new, & thus needs to be properly communicated & institutionalized for the NESI to benefit optimally from it.

Therefore, we must:

- **Properly communicate** the implications and procedures in the bulk procurement regulation. This will be issued as a factsheet
- **Institutionalize** through workshops & focus group meetings, the new procedure for power procurement



*Thank You.
Responses expected please....*

samadi@nercng.org