



Realising Nigeria's retail electricity market

Improving electricity supply in Nigeria

Onyi Iyizoba

The introduction of a retail electricity market will enable consumers to independently assess and compare electricity costs, quality of services, different alternatives and choose options that best suit their needs.

Introduction

The Nigerian government's incessant interventions have made the electricity market in Nigeria uncompetitive and heavily dependent on subsidy funding. Current efforts to standardise the market and create an independent market system free from government subsidy has hiked electricity tariffs making electricity unaffordable and inaccessible to many Nigerians.

Accessible and affordable electricity can be realised by the function of a liberalised retail electricity market system. The Nigerian electricity market offers little or no opportunity for reduced independent market prices with its existing framework.

Context

Nigeria embraced electricity market reforms in a bid to address its chronic energy crisis. It unbundled and privatised previous state-owned national power company into eighteen (18) successor companies comprising of eleven

(11) distribution companies, six (6) electricity generation companies and one (1) national transmission company.

The privatisation of the electric power sector in Nigeria created a

mandated member states to open the retail market to all customers excluding residential use and achieve complete liberalisation by July 1, 2007.

Nigeria is and has been at the

The privatisation of the electric power sector in Nigeria created a wholesale electricity market.

wholesale electricity market. The current end value chain comprises distribution utilities mandated to serve allotted franchised areas. The distribution companies are responsible for directly supplying electricity to power consumers in their residences and workplaces. The companies, in most instances, exercise exclusive rights of operation over their franchised areas. Consumers are constrained to regional electricity suppliers as a result. The reform created a wholesale market system that offers limited opportunities for interested market entrants and stifles consumer choice.

In contrast, electricity reforms globally are targeted at stabilising electricity supply, improving investments in the sector and ultimately engendering a decrease in consumer electricity costs through market competition. Electricity liberalisation, in most instances, culminates into the establishment of retail electricity markets. For example, in 1996, the European Union following in the heels of the 1980's UK and Norwegian reforms, issued a directive to all member countries to open their retail electricity

wholesale electricity market stage since the reform inception and privatisation. A complete unbundling of the electricity market to retailing is crucial to building a consumer-based affordable electricity reform in Nigeria. The pre-requisites for a fully unbundled market in Nigeria is still far from being met.

Why Retail Markets?

Retail electricity markets create flexible electricity supply options for consumers in terms of the contract, price structures, market risk exposure and efficiency solutions. A retail market is needed to create a competitive electricity end-user market and offer consumers the right to choose their electricity suppliers. With the introduction of a retail electricity market and competition, consumers can independently assess and compare electricity costs, quality of services, different alternatives and choose options that best suit their needs.

Improving access to affordable electricity can be effectively achieved by maximising consumer choice and competition in a retail market. Choice and competition drive

The reform created a wholesale market system that offers limited opportunities for interested market entrants and stifles consumer choice.

markets to establish a competitive retail market that gives consumers' freedom of choice. By 2000, except Greece, 14 EU states had opened their retail electricity markets, with more consumer choice expansions by 2003¹. Another EU directive of 2003

innovation, as electricity producers aim to deliver better quality at lower prices. Consumers are also offered a wider variety of customised, flexible offerings, which may be unavailable to consumers served by monopolised utilities.

Inadequately unbundled wholesale electricity markets lack competition. It is also incapable of achieving affordable electricity targets, owing to its monopolistic nature. Hattori and Tsutsui (2004)² argued that wholesale market reforms in the

market. The existing framework for implementing the power sector reform model requires an overhaul in favour of the conceptual policy framework, which is similar to a standard reform model. A standard reform model of electricity, an

Improving access to affordable electricity can be effectively achieved by maximising consumer choice and competition in a retail market.

electric power sector, in most cases, do not reduce the consumer cost of electricity. The research statistics indicated that launching wholesale power market reforms occasioned significantly higher prices. It also slightly hiked the ratio of industrial electricity cost to household electricity cost.

example of the liberalised British electricity reform model, comprises different restructuring stages, privatisation, regulation, and competition. This model has reduced electricity prices in the United Kingdom by about 25 per cent, and high system reliability has been maintained (Thomas, 2004)⁵.

Global experiences indicate more success with fully unbundled electricity reforms. Lessons from the Chilean power sector reform also show insufficient unbundling and limitations on competition in the sector can negatively impact reforms.³ Argentina structured its power sector reforms in 1992, with lessons from the imperfections of the Chilean model. It established full retail electricity models, and until the Argentinean macroeconomic crisis of 2002, there was a considerable decrease in electricity tariffs and improved investments in the sector.⁴

A new framework is desirable to restructure the post-reform institutional structure of the electricity market. Further legal and regulatory modifications are needed to create a competitive retail electricity retail market and give the consumers the right of choice. Most importantly, consumers should have electricity service options to choose from.

Fixing the Market.

Resolving the Nigerian electricity market requires a return to the fundamentals of the pioneer Nigerian electric power reform

For an effective electricity market structure, the new holistic framework must embody certain fundamentals of an efficient retail market system. A critical element of this framework is the reorganisation of obligations within the energy value chain to include electricity retailers in the market system. The framework must detail accessible structural requirements for market entry in

Retail electricity markets create flexible electricity supply options for consumers in terms of the contract, price structures, market risk exposure and efficiency solutions.

policy. The foundational electricity reform policy was designed to be implemented in phases culminating into a competitive retail electricity

the electric power sector, including licensing and regulation of electricity retailers.

Creating a transparent and reliable market system is another fundamental feature of an efficient retail market framework. Prices, qualities and costing information must be ascertainable and predictable. Consumers should

The new framework should include the establishment of effective redress mechanisms for consumer-supplier compliant receipts and dispute settlement. Clear and efficient pathways for complaints

Similarly, the requirement of the right to energy choice is crucial in creating an efficient retail market system.

understand their billing information, cost projections and the value of electric power supplied. Consumer competence and information on electricity plans and tariff payment systems are vital in fostering efficient, competitive practices. They can make informed choices on the range of electricity plans offered by retailers. Similarly, the requirement of the right to energy choice is crucial in creating an efficient retail market system. The framework must embody a consumer's right to choose service and decide between different suppliers without any restriction regarding geographical location or governmental franchise. The proposed framework should encourage competition by ascribing every electricity consumer the right to switch suppliers without charge. This right will encourage the best service provision on the part of most suppliers in order to attract and maintain electricity consumers.

Provisions for preserving fair competition among licensed retailers should be created and entrenched in the new legal and regulatory framework for an efficient retail electricity market. The state policing and regulation of industry players is

and feedbacks will aid in the effective regulation of retail market players, and consequently, an efficient retail market.

A retail electricity framework that fully inculcates an effective implementation of the above features will reduce electricity prices and induce economic growth. Access to reliable and affordable electricity will facilitate manufacturing and production and consequentially stimulate the Nigerian economy.

Risks and Challenges

While electricity retail market reform has been generally regarded as the standard reform model, there are scepticisms (Thomas 2004) that retail competition has disadvantaged small consumers and made the protection of low-income consumers more challenging. Price controls in favour of low-income consumers may be hard to implement in a liberal retail market system. There are certain government targeted assistances for low-income consumers like the current NERC bandwidth tariff model, which compel lower electricity tariffs and charges in low-income areas,

Creating a transparent and reliable market system is another fundamental feature of an efficient retail market framework.

crucial. It must be active to prevent dominant position abuses, misuse of market power, fraudulent supplier behaviours and other forms of market misconduct.⁶

forcing electricity to be cheaper in those areas than in other areas of the country, which will no longer be operational. In a properly reformed electricity market, electricity

subsidies to low-income power consumers through the Power Consumer Assistance Fund (PCAF) initiative will be challenging to implement. Consumers, irrespective of their earning strength or residence choice, will be charged according to prevailing market rates. It is argued that where integrated generation and retail companies dominated the market, it makes price regulation regress into the old customary regulation.⁷

Conclusion

Consumers are primarily seen as those who should benefit from deregulated competitive markets. Distortions of the market system which exclude electricity retailing

should be eliminated to enable consumers to benefit from the electricity reform. Transparency, competition and energy choice are fundamental essentials of a retail electricity market and should be imbibed in the Nigerian electricity market⁸. An efficient implementation of an independent competitive electricity market will be a balancing factor in electricity pricing in Nigeria.

To learn more about how Nextier has worked with government agencies and international organisations to create solutions to difficult development challenges, kindly contact us at **info@theNextierGroup.com**

Onyi Iyizoba is a Harvard trained lawyer and a Senior Legal and Regulatory Consultant with Nextier Power.

References

¹Erdogdu, Ekan, 'Electricity Market Reform: Lessons from developing countries' Judge Business School, University of Cambridge, 2010. Accessed on April 26, 2021, via https://mpa.ub.uni-muenchen.de/27317/1/MPRA_paper_27317.pdf

²Ekan, Ibid.

³Ibid.

⁴Ibid.

⁵Ibid.

⁶Lucia A. Reisch, Hans W. Micklitz, 'Consumers and deregulation of the electricity market in Germany' J Consum Policy (2006) Accessed April 25, 2020, via <https://link.springer.com/content/pdf/10.1007/s10603-006-9016-z.pdf>.