



Frederik Veldman

Power Programme Manager

Frederik.Veldman@adamsmithinternational.com



James Turley

NIAF Manager

James.Turley@adamsmithinternational.com

Power Sector Reform: TEM Implementation

Executive Summary

- On Sunday 1st February 2015 supply and purchase contracts under Nigeria's Transitional Electricity Market (TEM) became active.
- TEM's introduction, the first private power market in Africa, paves the way to introduce competition in power supply, incentivise improved performance, speed up supply extensions and attract much needed investment into the sector. It is a unique achievement for a country at this stage of its development.
- With commencement of the TEM Nigeria's power privatisation essentially becomes irreversible.
- NIAF's role in preparing the sector for TEM reflects the breadth of this milestone, covering many clients and complexities across the value chain. This briefing note explores NIAF's interventions which helped prepare the sector for this significant milestone.

The Challenges

- A multitude of technical and regulatory challenges from across the sector needed to be addressed – a legacy of poorly performing institutions under public ownership. For the market to launch sustainably, investors, creditors and regulators needed a sufficient degree of confidence that the sector was financially viable and technically capable of functioning.
 - Significant technical losses by DisCos (in some cases payments of invoices owed were as low as 40%), meant that a shortfall of more than \$1bn had accumulated since privatisation.
 - Chronically low availability of gas for power was a major deterrent for new investment in generation, and the bankability of PPAs.
 - Activation of contractual agreements under TEM just weeks before an election was politically charged and highly contentious within the senior Nigerian leadership.
-

The NIAF Approach

The value of NIAF support to the power sector lies in its ability to operate across the entire spectrum of the energy value chain, (See Image 1). Maintaining such a broad presence allows the programme to incubate momentum for reform amongst its partners, and convene sector and non-sector entities to agree on decisive action when necessary.

NIAF's role was firmly at the forefront of policy and technical preparation for the introduction of the TEM, providing critical support to the management teams of the privatised sector, including the new regulatory agency.

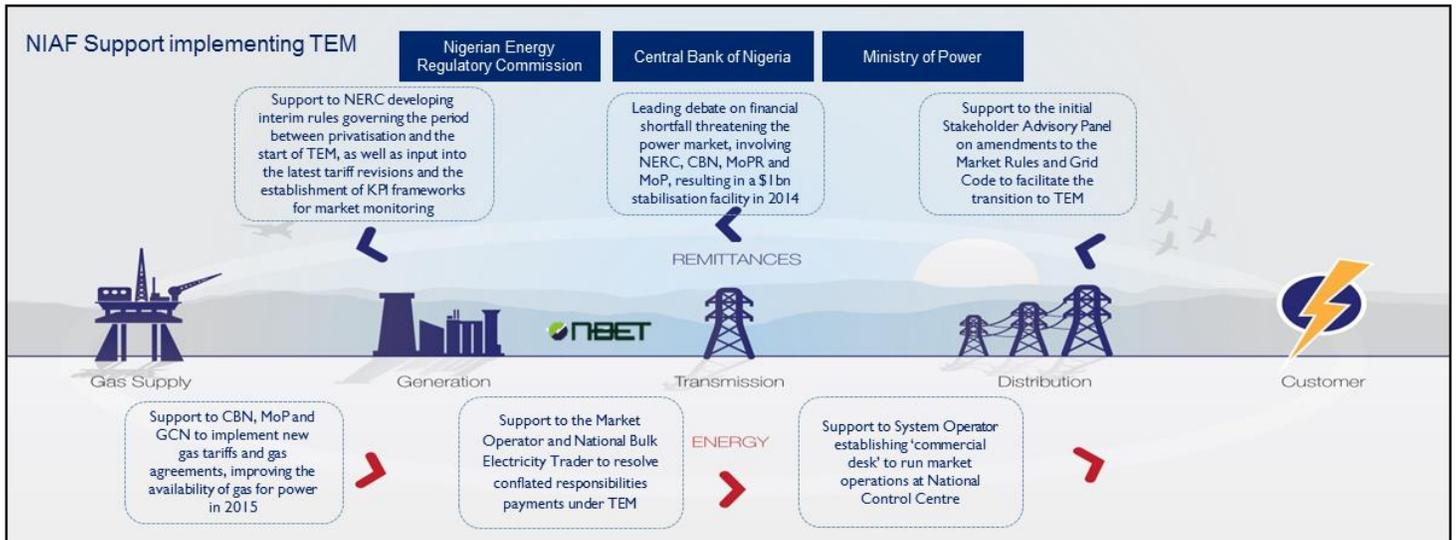


Image 1.

The Outcomes

Within TEM market participants operate under Market Rules and Grid Codes. These establish an efficient, competitive, transparent and reliable market for the sale and purchase of wholesale electricity and ancillary services. Put differently, Nigeria's unbundled power sector will now be contractually bound to guarantee flows of funding in exchange for power. This targets two transformational impacts:

- The elimination of chronic payment problems, which have persistently dogged development of the sector (like so many other power sectors on the continent).
- Improved financial discipline to attract the massive investment in power supply required for Nigeria to achieve its growth objectives.

This was combined with a \$1.2bn facility to stabilise market liquidity. The Nigerian Electricity Market Stabilisation Facility (NEMSF) represented an unprecedented collaboration between the Central Bank of Nigeria, Ministry of Petroleum Resources, Nigerian Energy Regulatory Commission and Ministry of Power to address the chronically low payments which had previously throttled power development under public ownership. The Facility also implemented significantly increased gas supply and transportation tariffs, to increase quantities made available by domestic supplies.

Through its broad engagement with the sector, NIAF has developed a high level of visibility and credibility with its counterparts. In particular, this has allowed the programme to develop a close and trusting working relationship with the key political institutions such as the ministry of Power. Indeed, the Minister has maintained a strong commitment to driving through reform, notably with this landmark declaration of TEM during a politically sensitive period.

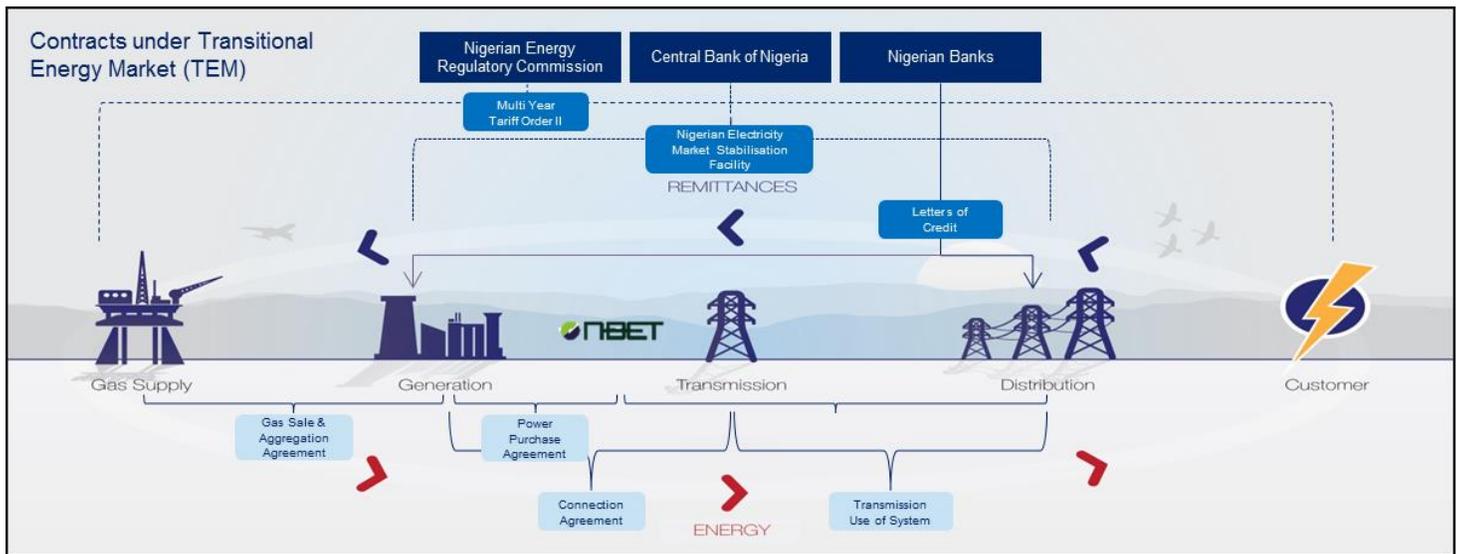


Image 2.

The introduction of TEM is transformational and establishes the environment necessary to attract further investment into the sector. The reach of this impact extends across the entire sector and will ensure;

- Substantial private investment in additional generation capacity.
- Increased supply of gas for power generation.
- Expansion of the transmission system to evacuate additional generation to distribution companies.
- Significant increases in power supply to consumers. Particularly important will be increased bulk supply to the three northern distribution companies.
- Improvement in the reliability of the power system, to distribution companies and their consumers (reducing needs for parallel private generation facilities.)
- Expansion of distribution networks into peri-urban and eventually rural areas.
- Improvement in the efficiency of companies throughout the sector, reduction in losses, and improved project implementation.
- Improved customer handling and satisfaction.

Keeping the TEM operational – NIAF’s planned work

Africa’s first private power market is a unique milestone in development of grid power supply. There is, of course, an ongoing requirement to support sector agencies as they adjust to their new roles in the private market, thereby ensuring market sustainability. NIAF’s continued involvement will focus on:

- Permitting adequate investment recovery by operators, within the market rules, crucial for ensuring the financial stability of the market.
- Overseeing the procurement of additional generation capacity, ensuring the capacity exists for effective contract management and improving processes on connecting new generation (including renewables).
- Supporting Nigerian financial agencies in the implementation of the NEMSF.
- Monitoring effectiveness of market operations and governance arrangements
- Further development of metering and settlement systems.