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Power Sector Reform: Amending the Market Rules

Executive Summary

- The market rules establish and govern a competitive, transparent and reliable market for the sale and purchase of wholesale electricity. They also ensure the Grid Code & Market Rules work together to secure efficient co-ordination across sector participants.
- The market has evolved significantly since its creation, such that the market rules required a complete overhaul to bring them in line with current practice.
- NIAF has been instrumental in the amendment to the market rules, updating these to reflect the envisioned market structure and operational mechanism. Progression into Transitional Electricity Market (TEM) was conditional on successful completion of this intervention.

The Challenges

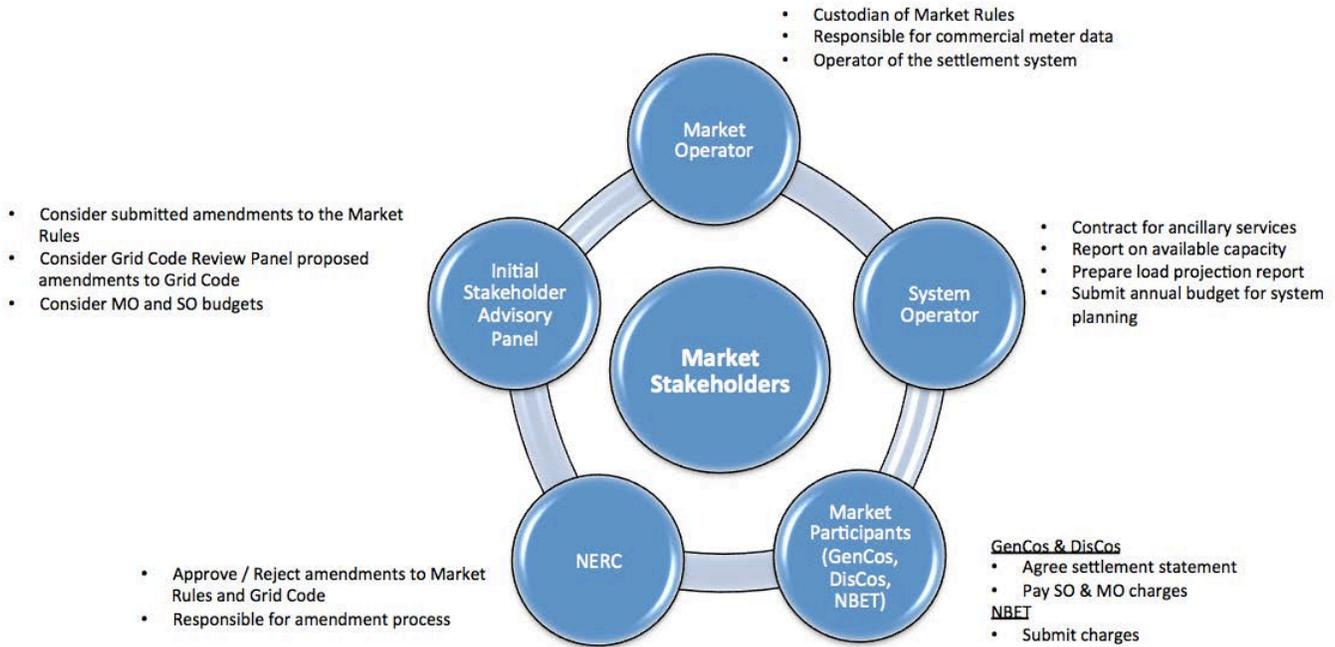
The market rules lay out the roles and responsibilities of electricity market participants and include operating procedures and payment mechanisms, market development pathway, obligations, performance criteria and non-compliance penalties. They underpin the effective operation of a multi-participant private market system.

The market rules had initially been developed between 2004-2006, drawing on a template approach from the power sectors of distinct developing markets. This left them unfit for purpose at the time of TEM transition due to:

- Incompatibility with the evolution of market structure in Nigeria
- Several unclear or conflicting conditions i.e. duplicate counterparties for invoicing
- Imprecise definitions, outdated terminology and typos!

NIAF's intervention involved a broad coordination approach across the market stakeholders. Stakeholders needed to understand their role and obligations within a revised market structure and subsequently provide input into the revision process. All amendments had to be approved by the initial Stakeholder Advisory Panel (iSAP) and confirmed by NERC.

Market Stakeholders and Functions under Market Rules



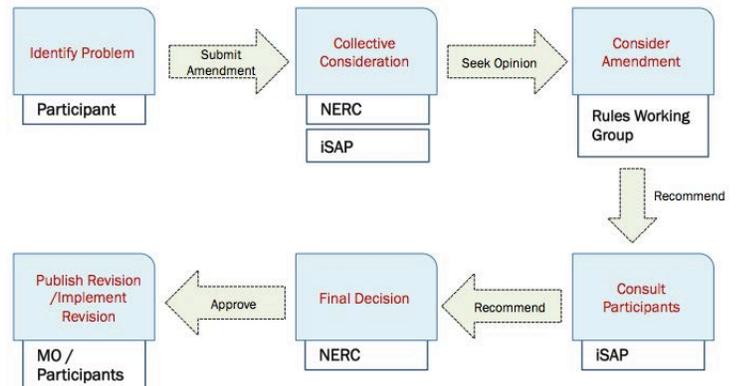
The Approach

The procedural integrity of the amendment process was crucial given the sensitivity of the market rules.

Amendments to the Market Rules were administered principally through the initial Stakeholder Advisory Panel (iSAP), although they had to pass through several additional consulting stages and review panels. NIAF ensured that draft amendments were developed in conjunction with primary stakeholders then subsequently guided through the amendment process.

As the primary development partner assisting with drafting the amendments to the market rules, NIAF was well-suited for this engagement since:

- As a pan-sector advisory body it was able to facilitate coordination amongst sector agencies and market participants
- It offered international power sector expertise on a short-term basis to advise on best practice from similar markets
- It could advise across multiple spheres including the commercial, regulatory and legal implications of each amendment



The Results

The transitional energy market would not be able to operate correctly without the aforementioned updates to the market rules. NIAF has been at the forefront of sustaining the momentum of the power privatisation process collaborating closely with the agencies across the length of the value chain to remove such barriers to progress.

As the market continues to evolve, additional amendments are a matter of course. This process, established and operationalised through NIAF support will continue to underpin a participatory market, which ensures a high level of compliance from all stakeholders.