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Unbundling the Transmission Behemoth

Restructuring of the Transmission Company of Nigeria (TCN)

- NIAF provided technical assistance to TCN in addressing the binding constraints to unbundling its business units through a reform centred approach.
- TCN was established under the Electric Power Sector Reform (EPSR) Act of 2005 as a company to undertake the roles of system operations (SO), market operations (MO) and transmission service provider (TSP).
- The Act provided for the hiving off of the MO and SO functions into an Independent System Operator (ISO), which will be a separate legal entity.
- The original policy intention was for the continuing TCN (in effect the TSP function) to be privatised or concessioned.



The Challenges

- One of the most difficult decisions TCN has confronted is whether to unbundle its business units. Although the rewards to the sector can be extraordinary, significant hurdles and risks also abound for execution.
- The TSP and ISO functions differ substantially in scale and nature. The TSP is a large and capital-intensive entity which should earn a return on investment. The management focus should also be on asset management and the management and implementation of an investment programme.
- By contrast the ISO function is much smaller, can operate as a cost centre, and has a focus on operating systems and processes in real time. Separation therefore allows for better management focus than a combined organisation, promotes transparency and efficiency, and facilitates stakeholder input.

For TCN to be successfully unbundled, significant interventions to address the capability and organizational effectiveness challenges of the existing business units needed to be introduced.

- **Market Operations Unit** has an important role to play in the implementation of the electricity market. Staff capabilities need to be enhanced, with a specific focus on implementing transparency of operations.
- **System Operations Unit** has serious shortfalls in capability. It struggles with the daily task of operating a highly unreliable, inadequate and poor quality transmission network.
- **Transmission Service Provider Unit** has to provide the transmission capability to evacuate the generation and deliver it to distribution companies. Although the TSP does have relevant capabilities, these have been formed in the context of legacy operations and require enhancement and development to meet the needs of a market environment.

The NIAF Approach

NIAF has provided technical assistance to TCN in addressing the binding constraints to unbundling through a reform centred approach underpinned by the following themes.

Improved System Operations	Improved Market Operations	Organizational Controls and Change Management	Establishment of an Independent System Operator
<ul style="list-style-type: none"> •Operational process mapping, analysis, and redesign for improved performance •Implement the Grid Code and drafting of amendments for future development •Development of Ancillary Services (AS) contracts suitable for transitional electricity market (TEM) •Development of AS for voltage and frequency control 	<ul style="list-style-type: none"> •Facilitate the development of metering and settlement systems •Setting up Commercial TEM Desk for communication, data exchange and verification of contract quantities 	<ul style="list-style-type: none"> •Development of policies and procedures •Business process reengineering •Skills assessments •Training and capacity development •Succession planning •Decentralisation and regional empowerment •Facilitating access to funding for capital investments 	<ul style="list-style-type: none"> •Confirmation of legal basis •Enable policy decision on ISO mode •Enable policy decision on governance structure •Legal establishment requirements •Identification of changes to commercial and regulatory documents •Analysis of financial structures •Assessment of internal readiness within TCN

The Outcomes

- The NIAF interventions utilized a disciplined and systematic approach that focused reform efforts on the most critical elements of TCN.
- The interventions acknowledged the complexities of the Nigerian electricity market, which is currently in a transitional phase.
- Consequently, the management of TCN has been equipped with an enterprise-wide view which is needed to steer TCN to successful unbundling outcomes.