KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Tuesday 19 December 2023

Crude Oil Price

$78.56 3.38%

$75.99 Previous

FX Reserve

$32.83b 0.16%

$32.88b Previous

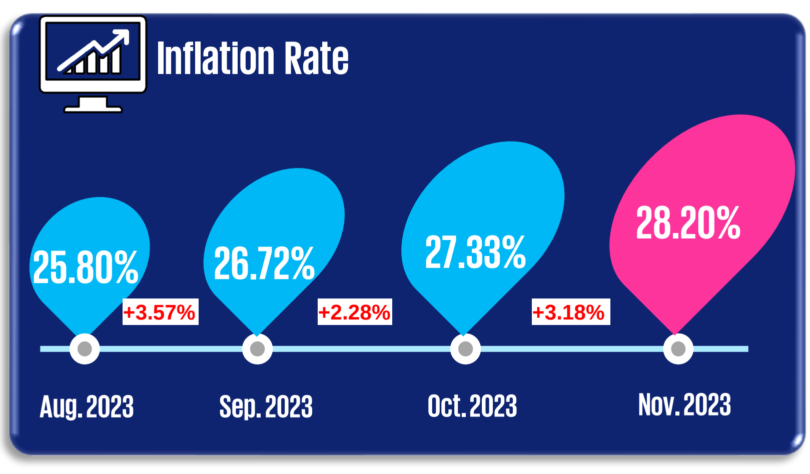
Market Capitalization

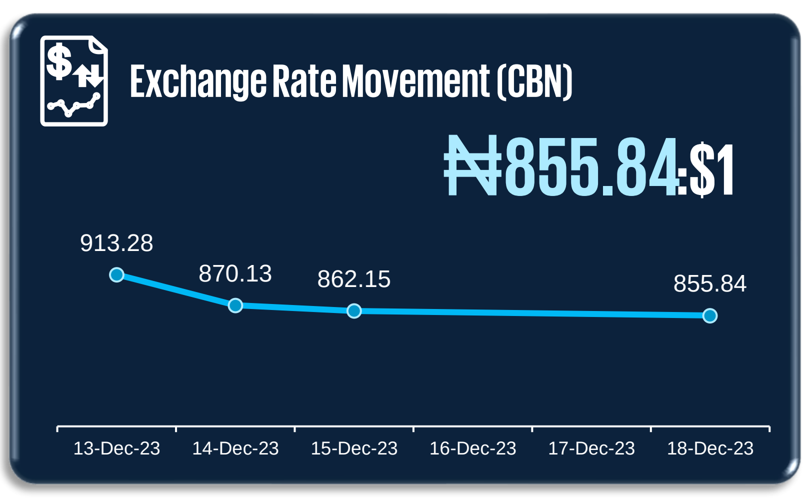
N39.61tr 1.17%

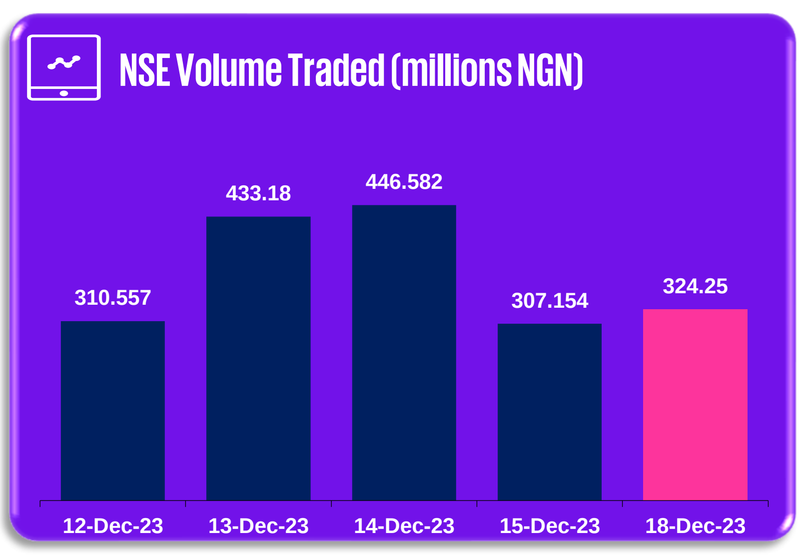
N39.15tr Previous

N87.4tr Debt Stock

$113.4bn







KPMG Analysis: On the Proposed Unbundling of the Transmission Company of Nigeria (TCN)

This week, we highlight the proposed unbundling of the Transmission Company of Nigeria (TCN) into two different entities – the Independent System Operator and the Transmission Service Provider. The proposed unbundling of the TCN, hinted by the Minister of Power in a recent Ministerial Retreat, is critical for the completion of the reform of Nigeria's power sector which is still underperforming despite efforts to revamp the sector.

Technically, the case for unbundling the TCN is quite swaying. According to the Q3 2023 report of the National Electricity Regulatory Commission (NERC), the national power grid (designed for stability at voltage: 330kV ± 5.0% and frequency: 50Hz ± 0.5%) faces risks of outages due to deviations. High demand lowers frequency, causing automatic plant shutdowns, while excess supply raises frequency, potentially triggering sudden drops in generation. In Q3 2023 alone, Nigeria recorded two (2) episodes of national grid collapse after three(3) consecutive quarters of no incidence of system collapse from Q4 2022 to Q2 2023, emphasising the need for a sustainable solution. A viable solution therefore lies in the decentralisation of the grid to permit independent operations, better real-time monitoring, greater state-level participation as empowered by law, and proper regulation that are expected to forestall future system shutdowns.

From the economic standpoint, we anticipate that the move will help to attract the requisite capital needed to promote the effectiveness and efficiency of electricity supply in Nigeria, reduce the participation of the government in the power sector, and ease the fiscal strain on the federal government. Moreover, deeper liberalisations of the power sector that promote efficiency and boost electricity supply will also spur greener economic growth through reduced carbon footprints occasioned by reduced needs for diesel and petrol-powered energy sources by households and businesses.

Notwithstanding, there are downsides to the proposed reform. The direct implication of the reform is that the current electricity subsidy regime, which has kept electricity tariffs below their cost-reflective levels, may be eventually phased out. It is documented, by the NERC, that the FGN expended a total of ₦375.8bn on electricity subsidy for the period covering Q1 to Q3 2023. Consequently, we anticipate that the proposed unbundling of TCN, which will make the power sector more market-driven, may cause the already high and climbing inflation estimated at 28.2% in November 2023 to surge further driven by higher energy costs filtering into consumer price inflation.

On a broader level, the proposed move may constitute a significant risk factor to the inflation target of 21.40% upon which the 2024 budget is anchored because of higher energy prices. Additionally, we note that the move could also dampen the prospects of the 3.75% growth outlook set out in the 2024 budget because of the demand destruction caused by higher price levels and the adverse effects on businesses, especially given that the effect of the removal of fuel subsidy and the unification of exchange rates is yet to fully manifest.

In conclusion, we note that the technical and economic cases for the unbundling of the TCN into two(2) entities are persuasive, but we recommend that the welfare economics of the proposed unbundling be thoroughly considered before its implementation. In addition, robust proactive measures should also be put in place to mitigate the unintended consequence of the reform and cushion the effect of unavoidable fallouts of the policy on individuals and businesses.

Sources: CBN, NGX, NBS, DMO, NERC & KPMG Research

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