# Grid Decentralisation

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## Background

Power supply in Nigeria has remained epileptic despite privatisation of the generation and distribution subsectors. Several issues have been suggested as the basis for the slow development of the sector since privatisation, but it has been obvious that the country needs to evolve a different solution. The decentralisation of the grid is one solution that may be the silver bullet that finally sets the sector on the path to sustainable growth and development. Notwithstanding, this will not happen overnight. There are a number of issues that would need to be resolved in order to achieve this objective.
We had considered a few of these issues in our earlier publication – Grid decentralisation – Issues Arising (Volume 1). States taking regulatory control over the supply of electricity in their domains will not on its own lead to improved power supply. It is a useful first step, but all of these other issues must be resolved in order to create a viable State electricity market.

We have discussed a few more of these issues below:

- **Tariff Framework and Electricity Subsidy**

  The Multi-Year Tariff Order (MYTO) 2020 introduced a Service-Based Tariff (SBT) system, segmenting consumers into five categories based on daily power supply hours. The tariff for Band A which covers consumers who receive the highest level of service is supposed to be cost reflective now. This means that distribution companies can recover the cost of supply of power to this category of customers and even be able to make a small profit to reflect the expected return for the business. However, the Nigerian Electricity Regulatory Commission has stated that only 15 percent of electricity consumers in the country fall under Band A. The remaining 85 percent do not currently pay cost reflective tariff, which means that the Federal Government currently pays or should pay a form of subsidy to cover for the supply of power to these categories of customers.

  There is very little data to state with any level of certainty, but it is expected that the farther away you move from the major industrial cities, the less likely that you will come across Band A customers. This therefore begs the question of what will happen when States take regulatory control and therefore become responsible for developing a tariff framework for their domain?

  Will these States replicate the same tariff framework? How many consumers in their domain would fall under Band A at the point where they take regulatory control? Will the States be in the position to pay subsidy for the power consumed by residents?

  It is noteworthy that one of the issues that have been adduced for the slow growth and development in the sector was the lack of commercial viability. The original tariff framework required periodic reviews which did not happen as scheduled and there was a point where the tariffs chargeable by distribution companies were less than that chargeable by generation companies. The settlement of the "shortfall" by Government or the process for its resolution did not happen quickly, which negatively impacted the commercial viability of the sector as players could not raise funding to invest in much needed infrastructural development. This set the sector behind, and it has not fully recovered yet. It is, therefore, important that the various States looking to take regulatory control put in place a tariff framework that not only ensures viability of the existing entities in their domain but also helps create a viable long term State electricity market. This would involve creative thinking by the States and that has to start immediately.

- **Interstate Power Contracting**

There is distribution capacity in all States of the Federation. Therefore, any State which takes regulatory control today, is likely to have as one of its first subjects, a distribution company. However, generation capacity, especially at grid level is more sparsely concentrated. The distribution companies in the various States would likely source for power from generation companies which are outside of the State.

This means that the State Regulatory Authority may not have direct control over a core aspect of the power supply industry in their State.

The NERC will continue to be the apex regulatory authority which oversees such transactions.

The lack of direct regulatory control means that states may face difficulties in enforcing contract terms and ensuring compliance. For instance, if a generation company fails to meet its contractual obligations, the State may have to rely on NERC for enforcement and resolution. This may lead to delays and complicate the process of any remedial action.

Also, the generation tariff is a key component of the distribution tariff. How does a State control one when it would have limited control over the other? Long term, States may attempt to build embedded generation capacity, but the power challenges faced by residents are now and today and they may struggle to deal with long term assurances especially as everyone says grid decentralisation is the key.

# Conclusion

Grid decentralization presents a pivotal opportunity to address long-standing challenges in Nigeria's power sector. However, the ultimate success of this shift hinges on States' ability to establish strategic, efficient, and sustainable frameworks. This would require innovative thinking and solutions. The passage of the Electricity Law in the State will not on its own drive the growth required. It will just be the first step of several that is required. An important first step though. The next steps are more critical.

# For further enquiries on the above and information on how KPMG can assist you, please contact:


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