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Restructuring Nigeria’s Electricity Market:

The Transition from Nigerian Bulk Electricity Trading Company Plc. (NBET) to Bilateral Trading

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Article

The Nigerian Electricity Regulatory Commission has issued an order on the switch to bilateral trading in the country's electricity supply sector. This edition of The Nextier's Power Punch has analyzed the document and provided the key points in the new order, including how they might affect the operations of the NBET. Below are all you need to know from the document "Order on the Transition to Bilateral Trading in the Nigerian Electricity Supply Industry (NESI)":

- **Regulatory Instrument:** The document is a regulatory order issued by the Nigerian Electricity Regulatory Commission (NERC), titled "Order on the Transition to Bilateral Trading in the Nigerian Electricity Supply Industry (NESI)", which took effect from July 25, 2024.

- **Background:** - *The NBET was founded to serve as a middleman between Generation Companies (GenCos) and Distribution Companies (DisCos) until the DisCos could independently sign Power Purchase Agreements (PPAs)*. However, its continued role is now seen as an impediment to the transition to bilateral contracting between DisCos and GenCos.

- **Electricity Act 2023:** The Act mandates NERC to transition NESI to bilateral trading, directing NBET to cease entering into new contracts to purchase and resale electricity and ancillary services.

- **Emerging Trends:** NERC has issued trading licenses to ten private companies for bilateral electricity trading, indicating significant potential in the wholesale trade of electricity outside the NBET single-buyer model.

- **PPA Administration:** The document details the administration of PPAs with specific power plants, noting issues such as the mismatch between contracted capacity and actual availability due to gas shortages.

- **Liquidity Challenges:** The NESI has faced challenges with inadequate revenues to cover the funding requirements of the value chain, primarily due to non-cost reflective tariffs, untimely subsidy disbursements, and poor billing and collection by DisCos.

- **Transition to Bilateral Trading:** The order outlines the transition to bilateral contracting between GenCos and DisCos, aiming to reduce the Federal Government's fiscal exposure and foster a more competitive market structure.

- **Operational Directives:** NBET has been ordered to cease entering into new contracts, and the System Operator (SO) is directed to dispatch certain power plants based on specified capacities. GenCos with existing "take-and-pay" contracts are granted 60 days to negotiate and contract with DisCos bilaterally.

- **GenCo Performance and Capacity:** The document reviews GenCo performance and mandates a transition to "take-or-pay" contracts to increase market certainty and discipline.

- **DisCo Bilateral Trading Limits:** The maximum capacity that a DisCo can trade bilaterally is defined, with provisions for fulfilling capacity deficits through the NBET interim pool.

- **Future Energy Invoicing and Settlement:** The document details the ranking of disbursement priorities for energy payments, ensuring market discipline and aligning with allowed tariffs.

- **Tariff Adjustments:** Monthly tariff reviews will continue to consider changes in macroeconomic indices to ensure sufficient revenue for DisCos to meet their contracted energy costs.

The implications of the transition to bilateral trading, as outlined in the order, have significant consequences for the operations of the NBET as outlined below:

- **Reduced Role and Authority:** NBET's traditional role as the sole intermediary between GenCos and DisCos is being significantly diminished. The order effectively ends NBET's ability to enter into new contracts for the purchase and resale of electricity, which has been a core function since its inception. This reduction in authority signals a shift towards decentralization and the promotion of direct contracting between market participants.

- **Financial Exposure and Risk Management:** Historically, NBET's operations have been underpinned by financial support from the Federal Government, including subsidies and capital infusions to manage the liquidity challenges in NESI. With the transition to bilateral trading, NBET's exposure to market risks decreases as DisCos begin to contract directly with GenCos. This shift reduces the Federal Government's fiscal burden associated with covering revenue shortfalls and tariff support.

- **Impact on Market Dynamics:** NBET's diminishing role alters the market dynamics in NESI, promoting a more competitive and efficient electricity market. The elimination of NBET's single-buyer model encourages greater accountability and performance from both GenCos and DisCos. DisCos, in particular, will now be more incentivized to improve their billing, collections, and overall financial management to meet their contractual obligations under bilateral agreements.

- **Operational Adjustments:** Although NBET will no longer enter into new contracts, it still has a residual role in administering existing contracts, particularly with the five GenCos listed in the order. NBET must continue to manage these contracts under the new terms, ensuring that capacity payments and energy deliveries are aligned with the revised contractual obligations. This operational adjustment may require NBET to streamline its activities and focus on optimizing the remaining contracts it manages.

- **Future Viability and Strategic Reorientation:** The transition raises questions about NBET's long-term viability and strategic direction. As its role in the electricity market decreases, NBET may need to consider restructuring or repurposing its operations. The company might focus on specialized functions such as managing the transition process, providing regulatory oversight, or supporting new market entrants. Alternatively, NBET could gradually phase out its operations as the market fully transitions to bilateral trading.

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