

A large portion of development work is focused on change; change in **context**, change in **operations**, change in **behaviour**.

These changes don't happen overnight, and in some cases, it can take a while to see results. But even small, incremental adjustments can be important early signs that positive change is happening.

In this series called "Stories of Change," we share some examples of early indicators of change.

What happened?

To enhance electricity agreements, UKNIAF offered technical support to the Power Sector Working Group (PSWG), the Nigeria Bulk Electricity Trader (NBET), and the Gas Aggregation Company of Nigeria (GACN). This support covered various areas, including Gas Supply and Purchase Agreements (GSPAs) between gas suppliers and electricity Generating Companies (GenCos), Power Purchase Agreements (PPAs) between GenCos and NBET, and vesting contracts between NBET and Distribution Companies (DisCos).

Why does it matter?

After the Nigerian power sector was privatized in 2013, the Transitional Electricity Market (TEM) was established to facilitate contractual relationships among energy market participants. Initially, the TEM relied on government subsidies and served as a pilot phase before transitioning to a fully market-based medium-term market. However, the TEM did not mature as planned and this created challenges for the government with ongoing subsidy payments. Recognizing the unsustainability of this approach, there was a need to identify and implement alternative solutions.

Who benefits?

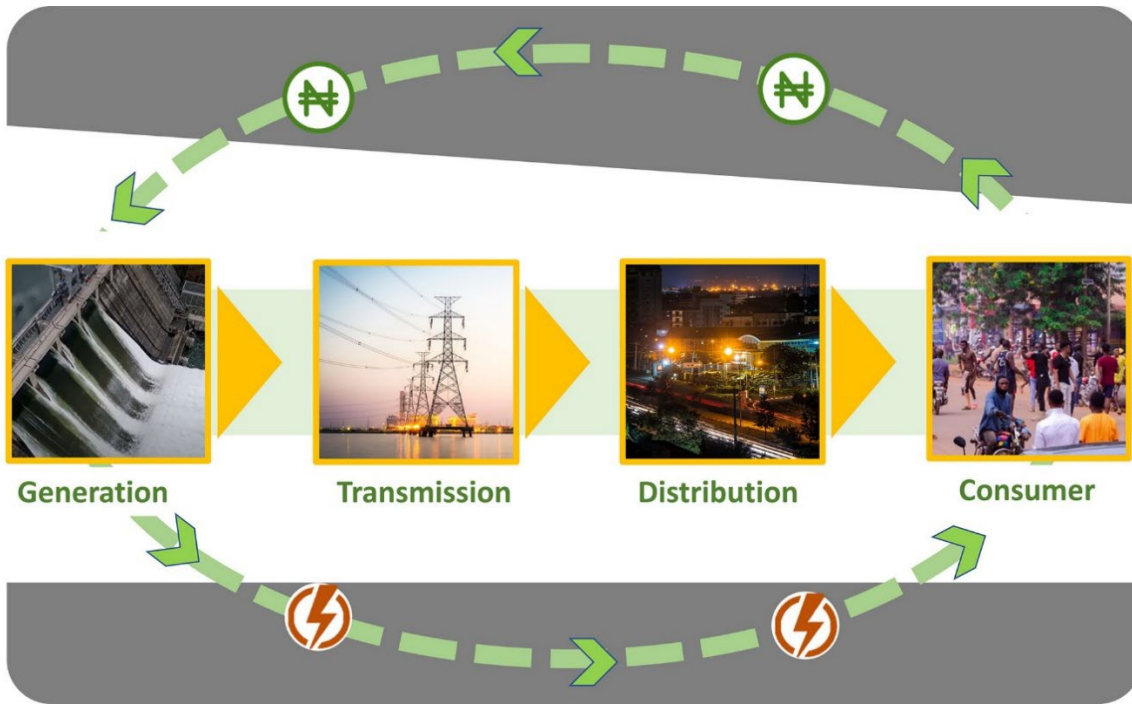
These changes have positive impacts on all market participants, including gas suppliers, GenCos, TCN, and the DisCos. Each party is now responsible and accountable for fulfilling their obligations regarding power delivery. Additionally, it is crucial for NERC, the Market Operator (MO), and NBET to have accurate information about the performance of market participants. This enables them to take appropriate actions if any contractual obligations are not met. Moreover, these agreements benefit consumers, who are the end-users in the electricity value chain, by improving efficiency and providing a more consistent and predictable power supply.

What did UKNIAF do that made the difference?

The Power Component of UKNIAF conducted a thorough review of the contractual frameworks throughout the energy value chain, encompassing gas supply, generation, transmission, and distribution. Based on an evaluation report, recommendations were put forth to enhance market contracting practices. One key recommendation proposed a phased approach to contract activation in collaboration with NBET, NERC, and TCN, with the goal of achieving full activation in due course.

To implement this approach, it was suggested that NBET should initiate partial activation of end-to-end contracts in the short to medium term, allowing the market to stabilize and mature gradually. This partial activation would involve enforcing only specific portions of energy sales contracts, fostering accountability among market participants and instilling confidence for sustainable growth. A comprehensive action plan was developed to address challenges and align with the medium-term market's generation growth targets while ensuring appropriate measures for mitigation.

Following productive engagements with key stakeholders led by PSWG, NERC announced the commencement of Partial Activation of Contracts in July 2022. The introduction of these changes has already yielded observable improvements in



market behavior, with all participants positively responding to NERC's request. There are also anecdotal reports of enhanced power supply quality for consumers. UKNIAF's contribution to the Service-Based Tariff dashboard has equipped NERC with the necessary data to monitor the compliance of Distribution Companies (DisCos).

The technical assistance provided by UKNIAF to PSWG, NBET, and GACN laid the groundwork for stakeholder engagements led by PSWG regarding the necessity of partial contract activation. Although there was a time lag of 9-12 months between the formulation of recommendations and NERC's request to market players, the efforts of UKNIAF played a catalytic role in driving the current changes.

What lessons can we draw from this?

1 Changing regulatory processes takes time:

The more difficult changes require time for the ideas to crystallise and for buy-in to be achieved. A sustained engagement with key players over a prolonged period is essential to bring about regulatory changes.

2 Political will is needed to drive change:

Building sustained political will needs to be handled delicately. A sledgehammer approach will not achieve the desired result. Start with the easier things that people will not be opposed to and build up from there. The market was not willing initially but it took the determination of NERC to get the result.

3 Regulatory change can be facilitated:

Regulatory change is not simply changing regulation but working with the stakeholders as active, engaged participants and crafting their buy-in.

Scan or click to watch the "Partial activation of contracts" Story of Change video

