

TRANSITIONING TO STATE ELECTRICITY MARKETS

January 2025

BUILDING BLOCKS AND EMERGING LESSONS

By Barr. Jumoke Delano

As a child, I loved playing with building blocks. The different colours, shapes, and sizes fascinated me. With creativity, I would build beautiful structures limited only by my imagination. But there was one thing I found frustrating: running out of blocks just when my masterpiece was taking shape. I had to either search for more blocks, adjust my design, or plead with my parents for a new set (which rarely worked!).



Sometimes, I spent my time dismantling structures I had built to rearrange the blocks into something entirely new. This experience reminds me of the evolving State Electricity Markets (SEMs), where diverse building blocks are essential to creating viable electricity ecosystems

The Big Picture

When a Nigerian State seeks to establish its own electricity market, the journey is not unlike building with blocks. The Electricity Act lays out specific requirements:

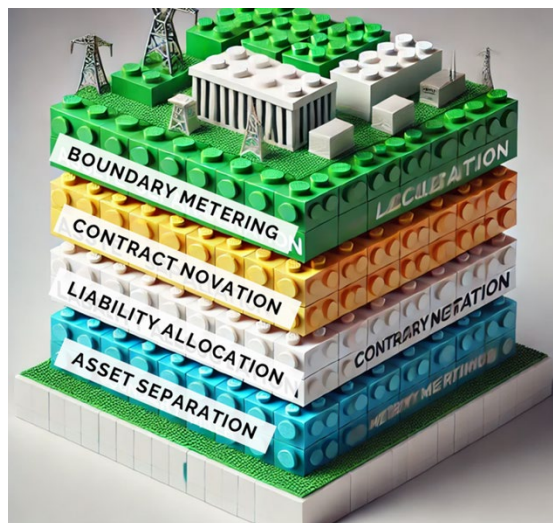
1. Enact a State electricity law.
2. Establish a State Electricity Regulatory Commission (SERC).
3. Notify the Nigerian Electricity Regulatory Commission (NERC), the distribution company providing services to the State (SDC), and the Bureau of Public Enterprises (BPE).

Once these steps are initiated, NERC issues a **Transition Order** (a starter kit) to the SERC and SDC. This Order directs the SDC to separate its assets, liabilities, employees and contracts in its coverage area, and transfer the relevant portion in the State creating its electricity market to its subsidiary company (SubCo). This is a process of dismantling existing building blocks to create new structures.

The Building Blocks

Several foundational pieces in the starter kit are essential for developing a state electricity market:

1. **Asset Separation:** The assets of the SubCo must be separated from those of SDC otherwise the State Regulator cannot approve tariffs or even regulate effectively.
2. **Liability Allocation:** It is also important to clarify the liabilities of the subsidiary company because this provides an accurate opening balance for accounting purposes.
3. **Contractual Novation:** Prorated components of existing contracts need to be transferred to the SubCo.
4. **Boundary Metering:** This involves providing meters at boundary points to measure the energy entering or leaving the State. This will ensure energy accounting and invoicing.



Whilst the Transition Orders issued by NERC in respect of Enugu, Ekiti, Ondo, Imo have expired, the process of separating the assets, liabilities and contractual obligations is still ongoing. The Commission met recently with the SERCs and SDCs to discuss the methodology for the separation.

Just as I relied on corner piece blocks to strengthen my childhood structures, SEMs require additional building blocks. While the Transition Order provides a foundation, the States need to integrate more blocks to ensure stable and sustainable markets, e.g. the States need to ensure that the SubCos operate independently, and not as a department of the SDC. SERCs also need to engage in ongoing stakeholder consultations as opposed to one-off events, develop investment frameworks, customer protection arrangements and agree what types of policies, tariff structures and regulations are best suited to the State.

All of these require the dismantling and rearranging of blocks which some SDCs may be reluctant to do for understandable reasons. UKNIAF's work providing technical assistance to the SERCs continues to make it clear the need for SERCs to incorporate the additional items mentioned above, in addition to the items under the Transition Order.

Building State Markets requires patience, creativity and a clear vision. With the right blocks in place and a commitment to collaboration, States can construct resilient electricity markets that serve their communities and drive economic growth.

MUST EVERY CHILDHOOD INCLUDE BUILDING BLOCKS?

By Dr. Stella Odiase

Unlike Jumoke, my recollection of playing with building blocks is not a happy one, as I found building blocks to be rather frustrating as a child. Especially if they were Legos which you needed to piece together. It was the same aversion I had for jigsaw puzzles: you just couldn't rush your way through because to get the right piece in the right place and recreate the image on the packet, thoughtfulness, care, rigour (and therefore time) are all required. The time spent being thoughtful and rigorous was no fun at all, why could it all just not be much easier. I was to learn much later in life that any successful venture requires the same type of thoughtfulness, care and rigour. Of course, as a child, struggling to put the pieces together, I did not understand this and was preoccupied with a different set of perplexing questions.



How Come the Absence of One Little Piece Distorts the Image?

Just as one missing block in a child's box of play blocks or Legos can lead to a grotesque image, the building blocks for a State Electricity Market must be in place for these emerging markets to work.

One of the challenges which the States currently face is ensuring the process is properly sequenced. For instance, rushing to produce a State Law without an initial stocktake or audit that clarifies contextual realities in a State could lead to a mismatch between what the Law says on paper and the type of market required to meet energy access needs of citizens in real-life terms.

Why Do I have to Produce the Image on the Packet?

There were times when my 4-year-old self just wanted to declare herself a champion after trying unsuccessfully to put those annoying blocks in the same form which they appeared on the packet. It was just too much effort and who said it was wrong to do a victory lap for even just trying so hard. However, I noticed there was a difference when my mum said, 'well done, keep going' and when she did the loud cheering. The latter scenario meant a treat was in store which was more rewarding.



In trying to set up subnational markets, the States deserve a 'well done, keep going' for each building block that falls in place. So far however there has been some loud cheering instead, which is a bit of a distraction. Writing a State Electricity Law is a milestone that deserves a 'well done'. However, the image on the pack is not yet complete because a State Electricity Law is not an end but a means to an end. The end goal here is for States to explore multiple channels for reducing energy poverty through improved electricity access for the over 85 million Nigerians who are currently estimated to have no electricity access¹. Until this estimate reduces, the self-congratulations are very premature.

Not all children play with building blocks. Some grew up playing with other items and are none the worse for it. Therefore, while the Electricity Act can help improve things in Nigeria's Power sector, there is critical question at play as to whether every State **MUST** absolutely transition to a State market. The States are giving each other deadlines for writing their laws but setting up a market is much more than having a Law in place. Besides there is no provision in the Act that says every single State must set up an electricity market. It reminds me of being presented with the box of blocks, being told to sit and play with them because they were a 'good toy' to play with and asking, '**Do I have to?**'

The response for States wondering whether they absolutely need to set up State Markets is '**No you don't.**' Improved electricity access for citizens is the goal but setting up a State Electricity Market is not the lone pathway to accomplishing this goal. Consultations, innovation, collaboration with other States, the private sector and stakeholders can help with identifying and opening these other pathways.



¹ [Lighting Up Africa: Nigeria Can Show the Way](#)