



# **NIGERIAN ELECTRICITY REGULATORY COMMISSION**

## **ISSUES OF ELIGIBLE CUSTOMERS – BENEFITS AND CHALLENGES**

By  
Mrs. Aisha Mahmud  
(Senior Manager)  
Market Competition & Rates Division

# Outline

- Introduction
- Drivers for eligibility declaration
- Benefits of declaring Eligibility
- Proposed Guidelines for declaring Eligibility
- Challenges in declaring Eligibility in Nigeria
- Conclusion



# INTRODUCTION

- **Definition**
  - Customers who have a choice of supplier are referred to as ***contestable, non-franchise or eligible***.
  - EPSR Act 2005 defines ‘*eligible customer*’ as ‘a customer that is eligible, pursuant to a directive or directives issued by the Minister under Section 27, to purchase power from a licensee other than a distribution licensee.’
- **Sources of power purchase from the Act (S25,26):**
  - Successor GENCOs
  - IPPs
  - Licensed Electricity Traders

## INTRODUCTION (CONT)

- EPSR Act 2005 Section 25 and 26 state that purchasers of electricity in the **pre-privatization** and **post-privatization** stages include **eligible customers**.
- Section 27 states: *‘The Minister may issue directive to the Commission specifying the class or classes of end-use consumers that, from time to time, shall constitute eligible customers under this Act.’*
- Section 28 stipulates that if despite efficient operations a supplier suffers inadequate revenue because of the declaration of eligibility, the Minister may direct the Commission to collect *‘competition transition charges’* from customers to compensate the trading and distribution licensees.
- The *competition transition charges* is to be determined by the Tariff & Rates unit of the Commission.



# Drivers for Eligibility Declaration

- Pressure from customers on their right to choose electricity supplier from competing retailers.
- Safety net for these customers on the basis of obligation to supply by local DISCO.
- Promotion of retail competition and market development.
- Fulfilling the objectives of the EPSR Act 2005.

# Benefits of Declaring Eligibility

- Eligibility would introduce competition on the demand side and complete the liberalization of electric systems.
- It puts greater pressure for efficiency on the suppliers
- More Attention to customers - Utilities holding a monopoly in the sector have traditionally paid little attention to customer service.
- The presence of retailers, or the mere possibility of future competition will force existing distributors to establish appropriate customer services and commercial divisions.

# Benefits of declaring eligibility (Cont'd)

- Promotes national economic development through:
  - supplying electricity to the productive sector of the economy.
  - Supporting economies of scale through bulk purchase of electricity.
  - Reducing technical and non-technical losses for bulk High Voltage supply.
  - Reduced financial risk by supplying credit worthy eligible consumers.

# Benefits of Declaring Eligibility (Cont'd)

- Confers on consumers power to choose energy supplier.
- Creates a more efficient electricity market.
- Stimulates investment in the electricity sector since generators can sign long term contracts.
- Delivers lower prices, enhanced service performance, and new service offerings for small consumers through competition.
- Sends a powerful signal that the electricity sector is evolving towards full retail competition.
- Allows a greater variety of suppliers to find innovative ways of discovering and providing what different groups of customers want in economical ways



# Proposed Guidelines For Declaring Eligibility

- Given the various difficulties associated with introducing the eligible customer concept, perhaps the best strategy, is a staged approach under which only a limited number of customers are permitted to enjoy eligible status in the very short term, with this number gradually increasing over time.
- This is compatible with the staged approach to the electricity market development adopted by the Commission i.e. pre-transitional, transitional, medium-term, and long-term (or competitive) market stages.
- In general, an eligible customer shall be required to sign an agreement with a *'Supplier of Last Resort'* to hedge against the failure of the supplier of choice to supply.
- The Commission shall ensure adequate protection for the eligible customer in its agreement with a Supplier of Last Resort.

# Proposed Guidelines For Declaring Eligibility (Cont'd)

- Stage 1: Pre-Transitional and Transitional Stages.
  - All customers 11KV and above presently enjoying quasi-eligible customer status (i.e. they already receive some or all their power supply from a non-PHCN source e.g. industries fed by NESCO).
  - Customers already connected to the 330KV or 132KV Transmission network (e.g. 22MW 132KV Ashaka Cement).
  - New customers with capacity above 20MW connected to Transmission such as D5 customers.

# Guidelines For Declaring Eligibility (Cont'd)

- **Stage 1 (Cont'd)**

- Customers above 10MW who because of distribution capacity limitations can only be served by connection to a 33KV bay of a Transmission Station. This customer has the possibility of losing eligibility once the distribution limitation is removed in the short run.
- Customers who qualify for eligibility on application based on the supercritical sensitive nature of their installation requirement with a minimum capacity of 15MW at 33KV voltage supply and alternative source of supply.

# Guidelines For Declaring Eligibility (Cont'd)

- **Stage 1 (Cont'd)**
  - Customers on 11KV with 400KW and above (without access to a DISCO network) being served by an Independent Electricity Distribution Network (IEDN).
  - The IEDN connects to Transmission or to a Generator to serve the customers such as Large estates, Industries, Entertainment villages, and Agricultural settlements.
  - There should be adequate provisions for customer protection, safety, and compliance with standards.

# Guidelines For Declaring Eligibility (Cont'd)

- Stage 2: Medium-Term Market Stage
  - Customers to be declared eligible are those with medium-sized loads above 400KW at 33KV or 11KV supply voltages with significant to supercritical sensitive installations to encourage them contract with IPPs.
  - These customers are typically R5; C4; D4-D5; and A4.

# Guidelines For Declaring Eligibility (Cont'd)

## **Long-Term or Full Retail Competition Stage**

- At this stage there is no longer a generation deficit
- The transmission and distribution grids have been rehabilitated and reinforced so that there is no more than the normal level of network constraints
- Payments discipline has been fully established from generation through to retail customers
- Supply quality and standards are being met

# Guidelines For Declaring Eligibility (Cont'd)

## **Long-Term or Full Retail Competition Stage ( cont'd)**

- At this stage, customers of all classes are free to choose their supplier because there is enough supply and suppliers (including traders).
- Freedom of choice which is the right of a consumer is the impetus that propels competition since the potential loss of key customers to another supplier should act as incentive for enhanced service performance by the incumbent supplier.

# Challenges of declaring eligibility in Nigeria

- Inadequate generation – there is a wide gap to close between the demand and the supply of electricity. Caution has to be taken to balance the distribution of power between the eligible customers and the Distribution companies
- Social responsibility and a balanced development in the Nigerian electricity industry require that there always be some sort of protection for low income residential customers, guaranteeing supply at a regulated price.
- Consumer Protection measures in the form of proper legislation and if possible placement of subsidies would have to be put in place in order to protect the interest of



# Challenges (cont')

- Cherry Picking - new producers will pick the best customers.
- Inability of the distribution companies to meet its obligations - maximum demand customers, who may probably constitute the bulk of eligible customers, account for about 70% of total revenue generated by existing distribution companies.

# Challenges (cont')

- How to set Competition transition charges
- Vandalism and sabotage, in limiting choice, are real threats to the supply for eligible customers
- Pressure may be exerted on the SO to dispatch plant to meet eligible customer requirements that otherwise would not be dispatched for system security and stability reasons.

# Conclusion

- We need to start the journey to contestability now.
- Caution is important.
- A staged approach to declaration of eligible customers is the way to go using the outlined guidelines.



# THANK YOU

**Contact us at:**

**Adamawa Plaza, Plot 1099 First Avenue,  
Off Shehu Shagari Way,  
Central Business District,  
Abuja**

**Website: [www.nercng.org](http://www.nercng.org)**

**E-mail: [info@nercng.org](mailto:info@nercng.org)**