Electricity Tariff Increase and the Big Lie,

By Jibrin Ibrahim

Without warning, the Nigerian Electricity Regulatory Commission (NERC) has raised the electricity tariff for most urban households by 300% on the basis of a big lie. According to the Vice Chairman of NERC, Musliu Oseni, Band A electricity consumers regularly get 20+ hours supply of electricity a day and should pay much more than other consumers who get much less. These privileged Nigerians do not spend much money on fuel for their generators so have all the extra money that accrues to them to pay their DISCO. The problem is that everybody in this country knows this is a lie and no sector of society regularly gets a minimum of 20 hours of electricity a day. You cannot build a new policy on lies and such a huge increase in the middle of the most severe cost of living crisis in Nigerian history cannot stand.

The new tariff is also aimed at elimination annual electricity subsidies of NGN1.14 trillion we are told. Mr Oseni said that the federal government had indicated a transition in policy direction towards introducing a more targeted subsidy regime aimed at mitigating the impact of changes in macroeconomic parameters "while largely protecting vulnerable customers and fostering investments targeted at providing efficient service delivery in the Nigerian Electricity Supply Industry (NESI)." The problem is that the sudden increase is so vast that every consumer is in reality vulnerable and such increases need to be spread over time to reduce the impact on consumers. I seriously doubt the argument that the review process is a necessary part in achieving the objective of the commission in the creation of a financially sustainable electricity market providing adequate and reliable power supply to drive the Nigerian economy. It is fiction.

While the tariff applies currently to so-called Band A category which is about 15 per cent of the customer population, NERC has also announced a plan to extend it to other bands as soon as they reach the fake level of 20+ hours supply a day. Since the level is determined by DISCOS rather than reality, I expect a rapid extension based of fake declarations which is a tradition that Nigerians know and understand too well. The original sin was the mode of privatization of the Nigerian electricity sector. It was a much-anticipated reform exercise that created much hope for Nigerians. Launched in 2010, the exercise was intended to modernize the sector and cater to the country's growing demand for electricity. However, over a decade later, the desired outcomes have not materialized and the electricity available on the national grid to light homes and power the economy has stayed at

an almost constant 4,500 megawatts (MW), well below the 8,400 MW projected for 2018. One reason for this is the technical inefficiency of the grid, beginning with inefficient gas supplies, the inability of the transmission system to deploy adequate electricity, and the lack of investment by production and distribution companies.

Such inefficiencies in the sector are compounded by 'legacy' corruption that has led to poor maintenance of the transmission network during state-ownership and to the presence of politically connected bidders in the privatization process. The design of contracts and lack of regulatory oversight has further deterred credible and technically competent investors during the bidding process. The politically connected nature of many of the acquisitions also means the government is reluctant to take any tough decisions with regard to the sector. The conditions in which consumers lack supply and firms are unable to make profits have given rise to a host of interdependent corruption mechanisms. As the sector moves deeper into loss, the space for formal earnings becomes narrower, and the perverse incentive to be corrupt deepens. This has now pushed the sector into a state of low-level equilibrium, with significant restructuring needed in order to turn things around. The DISCOS for example have refused to provide metres for most consumers so that they can be charged what they have not been supplied to consume. In the years since 2012, rated or installed capacity was supposed to have increased to 12,522 MW in 2015 but this is fiction. The average generation has been between 3,500 and 4000 MW. As a recent ACE-SOAS study of the Nigerian power sector reveal, the reality is that we Nigerian consumers spend more to purchase and maintain petrol and diesel generators than on electricity from the grid. The reform has been a total failure and for that reason, Nigerians are reluctant to pay more for a supply that is erratic and fails repeatedly. It is clear that Nigeria's power sector is unsustainable, which has repercussions for inclusive growth. The current crisis is a liquidity crisis as a result of deep structural distortions in the sector. The design of contracts post-privatization has led to adverse selection with only politically connected bidders participating in the process rather than technically competent ones. These bidders used Nigerian banks for financing, which have ended up assuming much of the systemic risk. The financial health of the sector was based on tariffs and projections that could never be politically implemented. Projections for the performance of the sector were based on distribution and generation companies (which are not publicly listed) reinvesting in the sector to build technical capacity. Instead the companies started paying themselves. Dramatic increase in tariff leads to more corruption rather than improvement in power supply. The companies have no intention of investing to improve supply. The entire reform has to be reviewed because the dual goals of increasing efficiency and investment have failed dramatically.

In addition, the transmission sector wasn't privatized in 2012 and government has not invested to improve it. As a result, even if Nigerian power stations were operating at full capacity, the transmission network would not be able to 'wheel' or transmit no more than 6,000 MW due to ailing infrastructure. For the past decade, the actual wheeling capacity is no more than 3,000 to 4,000 MW. The Nigeria

Bulk Electricity Trader (NBET) was meant to be a government-owned Special Purpose Vehicle (SPV) that pooled the electricity generated and acted as an institutional backstop. This agency was meant to inject confidence in the sector but has been facing liquidity challenges. Distribution companies are unable to provide enough power to meet demand. The DisCos have openly admitted that their companies are not viable. The Punch newspaper reported some years ago: 'In a joint press conference organized by the 11 companies, the Chief Executive Officer of the Jos DisCo, Tukur Modibbo, announced that they were ready to give up their licence if the federal government could refund the money invested in the utility. He said: "We bought Jos DisCo for $82 million. We are ready to give it away for $72 million if we see buyers now. If government refunds the investors their money, we will quit the business."' We need to see a reform that would actually improve the system rather than sink more of our money into the mess.