Flashnotes

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An Energy 'Big Bang' Near the End

- **Constitutional amendment, which empowers states in the country to license, generate, transmit, and distribute electricity is expected to stimulate competition, cut costs of production, make Nigeran businesses more competitive and boost economic growth.**
- **The law is expected to enhance infrastructure development in terms of power generation capacity, improve the availability and reliability of electricity supply, and could be a driver to influence the use of alternative sources of power generation such as the renewable energy.**
- **The law is expected to increase the involvement of the state in national power generation thereby creating more internally generated revenue and attract more private investors.**

Event

On March 17, 2023, it was announced that the president had signed 16 Constitution Amendments Bills into law. Two of such laws which now empowers Nigerian States to generate, transmit and distribute their own electricity in areas covered by the national grid and to construct and operate railways have the potential to make a direct impact on economic growth and development in Nigeria. States are now able to function as proper centers of production and can better plan and develop their economies at their own chosen pace.

Analysis/Opinion

Finally 'Light' at the End of the Tunnel?

The importance of sufficient and constant supply of electricity for economic growth and development is well established and cuts across the production, transport, and services sectors, all the way down to basic needs of private households. Properly functioning businesses, industry, commerce, and public services including education, healthcare and communication are highly dependent on access to sufficient and constant energy. However, electricity supply in Nigeria has been characterized by inadequate supply and frequent power failures and loading which has stifled economic activity, private investment, job creation and human development and prompted businesses and households to turn to expensive alternative sources. These amendments, therefore, have a direct impact on job creation and economic growth, given that power, transport, and distribution challenges have featured among the biggest costs to Nigerian companies and to the ease of doing business in the country. Energy (especially from alternative sources) and transport costs have remained high and have been constantly rising especially since the COVID 19 pandemic and the Russia-Ukraine war. According to the National Bureau of Statistics, Diesel Prices have risen by 182% in the last year. In 2022, quoted companies on the Nigerian Stock Exchange saw their power costs rise by over 33% and many have an energy cost to total production cost ratio of about 40%. The World Bank also estimates that the economic cost to Nigeria from electricity charges is about $28 billion equivalent to 2% of GDP.

Based on data obtained from Nigerian Electricity Regulatory Commission, Nigeria currently has the capacity to generate 10,396MW electricity but only generates an average of about 4,500MW which is insufficient for a country of over 200 million people, despite having 23 sub sector generating plants connected to the National grid. NERC's second quarter, 2022 report stated that the average available generation capacity was 4,508.38MW, representing a decline of 203.96MW (-4.33%) from

4,712.34MW recorded in 2022/Q1.

Following this amendment, the Transmission Company of Nigeria (TCN) which is the only independent company in the value- chain and is fully government-owned can be decentralized to improve the effective transmission and reduce the load on the national grid. Also, the new law opens the power sector further for fresh investments and job creation as states will now begin to make investment or partner with private enterprises to provide the needed infrastructure for the industry.

We expect that this could also be a key driver to aid infrastructural development and revamp the power sector as States will be saddled with the responsibility of ensuring that electricity is generated and effectively distributed to the consumers. Consumers will also be able to engage in direct energy transactions with producers

Additionally, the power given to the States by this amendment will de-monopolize the value-chain and thereby create free competition within the market and consequently improve accountability, transparency and competition which will eventually lead to a decline in electricity prices. Currently, Nigeria has 11 distribution companies in operation which we believe will increase during the actualization of the new law.

Furthermore, in addition to decreasing pressure on the national grid, this could foster improvement enhance better availability of electricity and overall boost the economy as we expect that State governments will make power generation, transmission, and distribution their key sources of internally generated revenue.

The use of advanced metering technology will then make it possible for consumers to select or migrate to their preferred electricity suppliers depending on tariff allocated by the particular generating company and this can also spur opportunities for consumers to explore alternative energy (renewable energy), self-generation options such as renewable energy and thereby earning revenue for the State; improving the living conditions of residents within the State, and supporting the country in meeting global climate change obligations.

Bottlenecks with Emerging opportunities

While the benefits of these amendments on the economy are many, some uncertainties still exist around the future of existing GenCos, TCN and DisCos despite the positive impacts this recent amendment will likely bring to the power sector. Moreover, the market and regulatory framework of how both State and Federal energy markets will coexist and how old and new entrants will collaborate is still unclear and would need to be clarified to avoid legal and other challenges in the future. There are also some questions about whether the existing network infrastructure can in the near term accommodate the anticipated electricity supply surge or States will also have to invest huge capital to upgrade these faculties.

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