



ELECTRICITY
LAWYER

SIMPLIFIED LEGAL *And* REGULATORY GUIDE:

The Market Rules for the Transitional and
Medium-Term Stages of the Nigerian Electricity
Supply Industry





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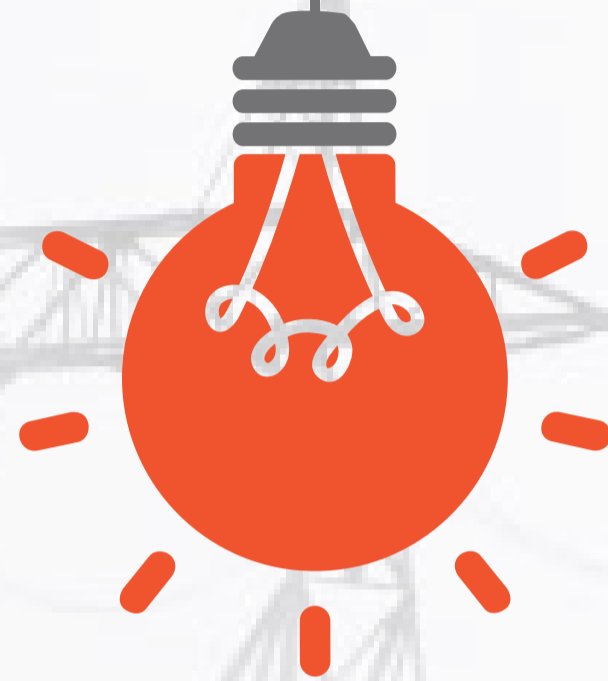
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OVERVIEW

The Market Rules for the Transitional and Medium-Term
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OVERVIEW



The Market Rules ('the Rules') of the Nigerian Electricity Supply Industry (NESI) was introduced on the 15th of February 2010 to regulate market and system operation in the various market stages in the electricity industry. The Rules framed by the Market Operator (MO) establishes an electricity trading system for the NESI and provides for energy procurement, energy metering, contract settlement, MO collections in the transitional stage, while it facilitates trading in imbalance energy, settlement of charges, payments to and collections by the MO of market administration charges, imbalance energy costs, etc. The Rules apply to all licensees and persons that are registered with the Market Operator as Participants or Applicant Participants. The Rules also bind the Transmission System Provider (TSP), the System Operator (SO) and the MO. The Rules supplement the Grid Code and should be read in conjunction with it.¹ Please refer to the Grid Code² and our Simplified Legal and Regulatory Guide for the Grid Code for further information. The Rules consist of ten (10) Parts and a total of forty-six (46) rules.

The Glossary of Terms used in the Rules and referenced in this guide can be found in the original Market Rules³ and in our [Glossary of Industry Terms](#).



ENABLING LAW

The Market Rules are established in accordance with the Electric Power Sector Reform Act (EPSRA).⁴ The EPSRA⁵ provides that the Minister can recommend to the President, the approval of market rules to be developed by the System Operator (SO)⁶ to provide for, among other things, the establishment and governance of markets related to electricity and ancillary services.⁷ Please refer to our Simplified Guide for the EPSRA for further information. [Please refer to EL's guide on the Electricity Act.](#)



OBJECTIVE

The Market Rules for the Transitional and Medium-Term
Stages of the Nigerian Electricity Supply Industry

OBJECTIVE



<p>The primary objective of the Market Rules is:</p>	<p>To establish an efficient, competitive, and reliable electricity market for the sale and purchase of Wholesale electricity and Ancillary services in Nigeria</p>
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KEY PROVISIONS

The Market Rules for the Transitional and Medium-Term
Stages of the Nigerian Electricity Supply Industry

KEY PROVISIONS



Operating and Market procedures

The SO formulates and implements the operating procedures as it relates to implementation of the Grid Code, Power System operation, etc. and amends the operating procedures where necessary.⁸ The MO also formulates and implements the market procedures for implementation of the Rules, administration of the Wholesale Electricity Market, etc. and amends the market procedures where necessary.⁹ Before drafting market procedures, the MO is required to consult with Participants and may also require the presence and active participation of the Stakeholder Advisory Panel (SAP) in the process of drafting the procedures. The SO may also require the participation of the Grid Code Review Panel (GCRP) when drafting the procedures and after consulting with Participants. These procedures are to be published on the respective websites of the SO and the MO.

Market Development

The stages of the competitive market in Nigeria evolve through the Pre-Transitional stage, the Transitional stage and the Medium-Term Market. During the pre-transitional stage, preparations are made for the physical unbundling and privatisation of the Power Holding Company of Nigeria (PHCN), establishment of the performance incentives for distribution and generation activities, testing and implementing the Grid Code and the Market Rules.¹⁰ The Transitional stage consists of contract-based arrangements for trading electricity and the establishment of a competitive electricity market. The Medium-Term Market anticipates the introduction of generation competition within the Wholesale Electricity Market and a centrally administered balancing mechanism for the Wholesale Electricity Market.



STAGES OF MARKET DEVELOPMENT

Pre-Transitional stage	<p>During the Pre-Transitional stage, the SO or the Transmission Company of Nigeria (TCN) will commence application/implementation of the Grid Code, develop and implement initial operating procedures, prepare monthly Grid Code implementation reports and train future participants on the Grid Code, while the MO will commence application/implementation of Market Rules, to the extent that they apply under the Transitional Stage, develop and implement market procedures, prepare monthly Market Rules implementation reports, train future participants on the Market Rules, implement the SAP, workable metering arrangements and settlement procedures, maintain adequate data bases and procedures for the settlement process.¹¹</p>
Transitional stage	<p>During the Transitional Stage, all electricity trading arrangements will be facilitated through contracts and there will not be a centrally administered balancing mechanism. The MO will develop a market procedure to manage inadequate supply and shortage conditions by allocating generation shortages proportionally among Load Participants taking into account the contractual rights of Load Participants.¹² The SO will prepare an operation procedure before the commencement of the Medium Term Market to manage shortages due to insufficient generation or transmission congestion, while the MO is to ensure that all arrangements for the proper functioning of the Medium Term Market are in place including the necessary models, settlement software and databases, and also ensure that all Market Connection Points have adequate metering.¹³ Prior to the initiation of the Medium Term Market, the SO and MO are tasked with several preparatory responsibilities for the successful transition to the Medium Term Market.¹⁴</p>



Medium Market Stage	The Medium-Term Market is anticipated to be a spot market and will reflect flexibility in the design of bilateral contracts to hedge costs/price risk which is to be within the ambit of a security constrained economic order dispatch. Each Participant will be able to buy and sell the difference between metered quantities and contracted quantities at fair and efficient market-determined prices in an open and non-discriminatory market. ¹⁵
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Participants Eligibility

Applications to become a Participant in the wholesale electricity market must be made to the MO.

To be eligible, the Applicant Participant must have an installed Commercial Metering System at each connection point, in accordance with the metering requirement and the Rules; and the Participant must have applied to the MO and obtained registration as an Applicant Participant for admission into the Wholesale Electricity Market.

A Participant is a person who holds a license for Generation, Transmission, Distribution or Trading of electricity; and is authorized by NERC to carry on business as a Generator, Distributor, an Eligible Customer; or a Transmitter that owns Commercial Metering Systems through which another Participant's Energy flows are measured; an authorised company from another country that participates in Regional Trading through a contract with a Participant located in Nigeria; or a member of the Regional Pool and has been authorised by the Commission to participate in the Wholesale Electricity Market.



If a person ceases to be eligible as a Participant after registration, the person is expected to notify the MO who will issue a Suspension Notice to the person within ten (10) business days.

Admission

The MO publicizes current information regarding Admission into the Wholesale Electricity Market on its website. One of the files or information that is publicly shared is the form for the Admission Application.

In addition, the MO publishes other information such as the Market Rules and Grid Code, Standard forms of all Agreements and a non-refundable fee that the MO charges the Applicant Participants for processing Admission Applications.

Following notification of receipt of the application, the MO will review the Admission Application and decide to either accept the application or notify the Applicant Participant of shortcomings in the application to be rectified by the Applicant Participant. Where the applicant Participant fails to provide the additional information, within three (3) months, the Admission Application will automatically

lapse. However, the Applicant Participant is not prevented from submitting a fresh application which will be treated as a new Admission Application.

The final steps for assuming Participant status include execution of the Market Participation Agreement and other agreements, furnishing the MO with the approved form of Security Cover, etc.

An Admission Applicant whose Application is rejected, may challenge the decision by the MO to reject its Admission Application and utilise the dispute resolution procedure in the Rules.

Participants can withdraw and voluntarily cease participation in the Wholesale Electricity Market, which would automatically terminate the applicable Market Participation Agreement.

Security Cover to be maintained by Applicant Participants can be in one of the following forms:
(i) Cash on deposit in an interest-bearing escrow or trust account; (ii) Irrevocable direct pay Letter of Credit, or other guarantee of payment; (iii) Unconditional and irrevocable guarantee of payment by a financial rating agency acceptable to the MO.



Connection Points and Trading Nodes

In the Admission Application, the Applicant Participant must include the Connection Point(s) to the transmission system for injection to or extraction of Energy from the Wholesale Electricity Market. A Participant is permitted to have more than one Connection Point and each Connection Point will be a trading node and have a Commercial Metering System to measure Energy taken from or injected into the Transmission System.

For Regional Trading, the Interconnector will be the trading node with the Wholesale Electricity Market except where the Rules or Code of any relevant Regional Electricity Market requires a different arrangement of trading nodes. The Interconnector is to provide a Commercial Metering System to measure Energy taken from or injected into the Wholesale Electricity Market.

General Rights and Obligation of Participants

Participants are obligated to implement and maintain all the necessary systems and processes required at all times to receive, acknowledge and implement dispatch and operation instructions issued by the SO and employ reasonable and qualified personnel for this purpose, to obey instructions of the SO unless in instances where

there will be likely endangerment to the Participant's equipment or safety of its personnel, undertake prompt payment of any accrued charges based on the Wholesale Electricity Market's settlement and billing process in line with the Rules, maintain adequate Security Cover at all times, etc.. Each Load Participant must accept and comply with the curtailment schedule and load shedding plans in case of shortages and any Dispatch instructions issued by the SO.

The Participants are entitled to open and non-discriminatory access to transmission services in accordance with the Grid Code and access to non-discriminatory system operation and market operation services, access to reports and non-confidential information published on the website and submit complaints to the SO or MO or to the SAP where the Participant is of the view that deviations with the Rules and the Grid Code have taken place by the MO or SO.

Duration of the Rules and Market Participation

Market Participation Agreements do not have a fixed duration; however, it will terminate until such a time when a Participant ceases to be a Participant in line with the Rules. The Market Rules will continue to subsist unless it is terminated by a Ministerial Order issued by the Minister.



The termination of the Market Rules will not in any way affect the rights and liabilities of Participants, TSP, the SO and the MO that existed prior to such termination.

Contract Market

It should be noted that the Rules for Contract Market Conditions only apply during the Transitional Stage. The Contract Market includes all bilateral trading arrangements including Participants in another electricity market, Regional Pool which buy or sell electricity from the Wholesale Electricity Market. The MO is expected to create a Contract Market Procedure in accordance with the provision of the Rules. In addition, all contracts in the Wholesale Electricity Market must be designed to ensure that Energy traded in the Wholesale Electricity

The Rules provide that all contracts for the sale of energy and ancillary services in the Wholesale Electricity Market during the transitional stage require that:

- Both parties must comply to the Market Rules and the Grid Code
- The seller must provide mandatory Ancillary Services defined in the Grid Code as stated in all contracts.
- Both parties must adopt the settlement data and quantities in the MO's Settlement Statement as contract quantities; and
- Both parties agree to adopt the procedures in the Market Rules for the settlement data and documents review and for dispute resolution related to settlement data and documents.

Market is undertaken on a bilateral basis. Where energy imbalances occur, the MO is to implement a balancing mechanism to settle differences, provided the Commission approves the mechanism and following necessary amendments made to these Rules to incorporate a balancing mechanism for the Wholesale Electricity Market during the Transition Stage.¹⁶



Contracts may incorporate availability performance incentives via a two-part design, incorporating monthly Generation Capacity payments, subject to target availability or a Single price contract with Energy payment reductions if performance is below target availability.¹⁷

A Contract Register is expected to be kept by the MO which will contain contract information as disclosed by the Participants.¹⁸ The Contract Register will be for the purpose of recording Generation Capacity and contracted quantities to evaluate generation adequacy and to aid the Commission regarding its evaluation of the load covered by contracts entered by each Distributor. The Contract Register is not expected to contain any commercially sensitive information. However, for the purpose of documenting the power contracted from each generator and bought by each participant, the following information must be recorded:

- Identification of contracting parties
- Contract duration
- Profile of the contracted Generation Capacity over contract duration
- Profile of contracted Energy over the contract duration; and

- The mechanism for calculating the contracted Energy. For Generators or Special Traders, the Contract Register should contain:

- the total amount of Generation Capacity

While for each Distributor, Eligible Customers and Special Trader:

- the total Generation Capacity bought in contracts must be included.

To enter a new contract in the Wholesale Electricity Market, Participants must first notify the MO of the contract and request for registration. The MO is also to be notified of any Regional Trading contract entered by a Participant, and any modification to the contracted quantities within the specified timelines.¹⁹

Contracted energy may be nominated as a fixed quantity (MWh) or a percentage of metered consumption (for Load Participants) or a percentage of metered generation of the Seller, or any other formula that establishes the computation method provided that the MO obtains all necessary data for computation before initiating the settlement process. The MO after verifying that parties agreed to the information and terms notified, will register the contract, and notify the parties within five (5) business days, following which the Contract Register will be updated.²⁰



Vesting Contracts

A group of individual contracts between the Special Trader and a Distributor whereby each Distributor agrees to purchase generation from the Special Trader on the same conditions and prices as other Distributors are referred to as Vesting Contracts. Vesting Contracts are designed to share generation during the Transitional Stage; therefore, each Distributor has a Vesting Contract with the Special Trader. Contract quantities in the Vesting Contracts are sold to each Distributor and are calculated by assigning Energy purchased by the Special Trader to each Distributor's contract on a proportional basis to the total Energy requirements of each Distributor. This calculation is administered by the MO as part of the Wholesale Electricity Market settlement process. When the Balancing Market is established, it is anticipated that the Vesting Contracts will be transformed into bilateral contracts via a process of novation at the start of the Medium-Term Market.²¹

All other contracts for electricity purchase from Generators are to be conducted through Power Purchase Agreements.²²

Generation Adequacy

Before the end of October every year, the SO is required

to prepare a report containing the monthly Energy and system peak load forecast for the next ten (10) years known as the Load Projection Report. The Load Projection Report is expected to contain the following information:²³

- Forecasted system peak load and energy consumption for each month of the year.
- System generation capacity requirement for the forecasted system load.
- Forecasted energy consumption for each distributor.
- Expected connections.
- Any requirement for generation capacity reserve.
- Best location for new generation capacity; and
- Free capacity available in international interconnectors.

Growth projection scenarios in three (3) phases are to be incorporated in identifying projections for each Distributor and total for the System. Adequate load forecast models that subjectively represent the future load growth, macroeconomic parameters and expected new connections should be utilized in preparing the Load Projection Report. The SO



is to publish the preliminary Load Projection Report on its website for the purpose of consultation with Participants.

The SO is to define the reserve requirement in MW to ensure generation adequacy in the Wholesale Electricity Market. The SO is to also determine the appropriate size of Generating Units to prevent losses and prevent the need for excessive Spinning Reserves, hence, the SO may require reconfiguration, extension or repowering of a Power Station during the procurement phase.

In addition, the SO is to review the Transmission system plan and projected new connections, factoring transmission constraints alongside planned improvements and expansion plans, to suitably identify the most appropriate location for additional generation and available capacity for Interconnectors for Regional Trading.

The SO is to send Load Projection Reports to the Commission for approval and NERC may upon review request for adjustments to load forecast assumptions and approve the Load growth forecast detailed in the Load Projection Report before publication on the SO's website. The SO is to also keep the MO in copy of the Load Projection Report.

Also, before the end of November every year, a Generation Adequacy Report is to be prepared by the MO containing

the results following evaluation of the risk of shortages to cover the system Generation Capacity requirement based on the approved Load Projection report and information relating to contracted Generation Capacity as contained in the Contract Register. The MO is to submit a preliminary version of the Generation Adequacy Report to NERC for review and approval. The approved report is to be published on the website and will contain the following:

- Forecasted monthly requirement of generation capacity, for each Distributor and for the system.
- Generation Capacity bought in contracts by each Distributor, Eligible Customers and Special Traders based on information in the Contract Register and information submitted by Participants regarding contracts that are still in the procurement stage; and
- Quality of generation adequacy, reflecting any expected shortfall or available reserve.

In addition, NERC may specify interim provisions for a reasonable forecast of the Load and Generation adequacy to be made by the SO and MO respectively for power procurement pending the availability of the Load Projection Report and the Generation Adequacy Report.



New Contracts

Quantities that are to be traded in new contracts between the Special Trader and Distributors are to be approved by NERC based on the Generation Adequacy Report which will form the basis for the need for additional Generation Capacity and attendant tariff affordability tests to estimate the effect of any new tariffs on power procurement, following evaluation by the Commission. Before each year comes to an end, NERC shall notify the MO and the Special Trader of the authorized quantity for new power procurement by each Distributor.

The MO will in turn inform the SO and all Participants regarding the authorization for new power procurement given by the Commission. Participants have ten (10) days to send any comments or recommendations regarding the authorization, following which the MO will summarize the comments and recommendations and submit to NERC and the Special Trader. The Special Trader upon authorization by NERC can commence the process of power procurement for additional power in line with the authorized quantities. The procurement process is expected to be transparent and competitive. NERC is to provide regulations and procedures to foster this process. Before publication of the procurement process in line with transparency practices, NERC will review the procurement documentation and power procurement contracts to ensure compliance with the laid down regulations and

procedures. The award criteria are based on the selection of the least cost bid that may be further adjusted by risk factors defined by the Special Trader and pre-approved and certified by NERC.

In addition, the Special Trader can propose to the SO and the MO Generation Capacity development in relation to the location, planning, and procurement of new Generation Capacity. Before engaging in the process of power procurement, the Special Trader is required to consult with Distributors on tender design and power procurement contracts. The new contracts for additional generation capacity will include the following characteristics:

- Assignment of construction risks and risks of costs overruns to the generation investor
- Effective dates and prices or price formula.
- Capacity charges, based on availability target which will not be lower than the standard availability defined by the NERC.
- Proportionality of the quantity assignment to energy consumption of each distributor; and
- Provisions for novation to enable the transformation of the contract into a bilateral contract between the Generator and Distributor.



Furthermore, new power and Ancillary Services are to be procured in an open, transparent, and competitive manner and procurement bids will be evaluated by the Special Trader prior to preparing a bid selection report. In accordance with the competitive procedures as defined by the Commission, information regarding the Special Trader's proposed generation projects and details of financial proposals for tendered power procurement contracts, sales price information must be furnished to Distributors and the Commission. Upon receipt of the information, Distributors may request approval from the Commission for bilateral contracts for additional power procurement where the conditions and sales prices as proposed by the Special Trader in the new power procurement would lead to higher regulated tariffs for Consumers than the bilateral contracts as proposed by the Distributors. NERC may reject the proposal by the Distributors and approve the Special Trader's competitive power procurement, in which case, all Distributors must accept the new power procurement proposed by the Special Trader.

The Commission is duty bound to ensure that the competitive procurement and bid selection complies with the tender conditions and competitive procedures, following which the Commission will authorize the transfer of procurement costs to Consumers through regulated end-consumer

tariffs. Following declaration by the Commission that the conditions for novation have been fulfilled, the Special Trader will start the novation to Distributors or Eligible Customers of its purchasing contracts agreed during the Transitional stage.

Distributors may enter bilateral contracts with Embedded Generators following confirmation by the SO to NERC that the local purchase will not endanger the grid and based on the Commission being satisfied that the prices specified based on the proposed alternative bilateral arrangement are lower than the prices of the new power procurement proposed by the Special Trader and the Distributors' proposal is approved by the Commission. The Rules make provision for Scheduling and Dispatch based on contracted or non-contracted Nominations made by Thermal or Hydro Generators. The Rules also make provision regarding arrangements for allocation of capacity on an Interconnector and any resulting Imbalance Energy.

Market Settlement and Payment System

The Market Settlement and payment system in the Transitional Stage operates monthly in terms of payments due from Participants and the system runs in accordance with the MO settlement calendar. The settlement system allows the



MO to calculate the Energy and Generation Capacity sold and bought in the power market, and payments due based on agreed contract prices. The market settlement system enables the MO make settlements regarding Uninstructed Generation, Transmission use of System fees, Administration Charges to the SO and MO, Ancillary Services and Special Trader Services.

In terms of Availability, the SO is obliged to inform the MO of daily and monthly Availability of contracted generation for the relevant periods at the end of each month. Such Availability information will be included in the Settlement Statements by the MO for the purpose of Generation Capacity Payments or compensation due because of actual availability being below the contracted target Availability to serve as a reference for contracting parties.

Also, a Generator that generates electricity at a capacity higher or lower than instructed in the Dispatch Schedule of the Market or SO instructions, would be liable at the end of the applicable month to make compensation payments for Uninstructed Generation to the MO or SO. Such compensation payment would be calculated based on either the value of the average contract price of the surplus Energy generated or twice the value of the average contract price of the Energy not generated for the deficit Energy generated less than originally instructed by the

SO. The Uninstructed Energy charge will be allocated as a compensation payment by the applicable Generator(s) to all Load Participants in proportion to the Energy purchased in the given month.

Commercial Metering Systems are to be put in place by Participants at the relevant Connection Points of the Participants and Interconnectors and ideally, each Connection Point should have two Meters, i.e., the official Meter and a back-up Meter. Meter Data validation during the Transitional stage is to be undertaken in line with the MO's metering Market Procedure which will apply until adequate commercial metering required for the Medium-Term Market is available.

The Rules make provision for Zonal Transmission Loss Factor in each Connection Point, the methodology for calculating the Loss Factor is to be developed by the SO in consultation with the SAP in the form of an Operating Procedure. For the purpose of settlement, the MO will take into account the Zonal Transmission Loss Factor at the relevant zone alongside the Meter Data.

In determining payments due in the form of Transmission Use of System (TUoS) fees, it should be noted that the Transmission Service Provider (TSP) is to inform the MO of the TUoS charges for Distribution licensees in Naira/MWh. following which the MO is required to calculate monthly,



the amount due to be paid by each Load Participant in the power market to the TSP, taking into account adjustments and corrections from previous Final Settlement Statements. Participants are also mandated to pay Administration Charges (N/MWh charge) to the SO and MO, the details of which are to be included in the monthly Settlement Statement taking into account adjustments and corrections from previous Final Settlement Statements .

Distribution licensees are also required to pay Special Trader Charges, which is calculated by the MO based on the monthly Meter Quantity of each Distributor. The details of the Special Trader Charges are to be detailed in the Settlement Statement issued by the MO to the Distributors taking into account adjustments and corrections from previous Final Settlement Statements. Each month, Generators are to invoice the SO for Ancillary Services provided in a given month which the SO recovers from all Load Participants through a charge calculated for each Billing Period based on the ratio of the Meter Quantity of each Load Participant to the total Meter Quantity of all Load Participants during the applicable Billing Period. Mechanisms for exchange of settlement information and complaint administration is to be detailed in the Settlement Market Procedure drafted by the MO.

The Rules make provision for Settlement and Billing during the Medium-Term Market subject to change(s), which may necessitate an amendment to the Rules, considering the evolving nature of the market in the current Transitional stage.

Dispute Resolution

The Rules provide for the constitution of a Dispute Resolution Panel responsible for resolving disputes between (i) the MO, SO, Transmission Licensee and any Participant, (ii) the MO and any person that has been denied certification as a Participant by the MO, (iii) Participants.^bThe Rules also provide for the appointment of a dispute resolution counsellor by the Commission. Parties are encouraged to make efforts to negotiate and resolve any Dispute between them amicably, failing which, disputes shall be resolved in accordance with the relevant procedures spelt out in the Rules. Where no procedures are provided for in the Rules, the default dispute resolution mechanism that may be employed include Alternative Dispute Resolution mechanisms i.e., arbitration, mediation and or conciliation. Arbitrators, Mediators or Conciliation bodies are to handle the dispute resolution process in line with the Arbitration and Conciliation Act.



An arbitral award made by an Arbitrator shall be final and binding on the parties to the dispute, and will be enforceable as an award in line with the provisions of the Arbitration and Conciliation Act. Parties are to comply with the procedures detailed in the Rules and are to avoid making the applicable Dispute the subject matter of any civil or other proceeding.

Amendment of the Market Rules or Grid Code

Participants can submit applications to NERC for an amendment of the provisions of the Market Rules. Such an application must be made in the form of a written submission (otherwise known as 'the Amendment Submission') to the SAP dictating which provision the Applicant seeks an amendment. Such Amendment Submission is to be analyzed by the SAP following the receipt of recommendations from

the Rules Working Group (RWG). The SAP will, following recommendations from the RWG, communicate its decision to the Applicant as to whether the proposal warrants consideration or otherwise. If the proposal does not warrant consideration, the SAP will communicate in writing to the Board of the Commission. If otherwise, the SAP would publish the proposal and request other Participants to write recommendations to the SAP regarding the amendment(s) within a specified period of time stipulated in the notice in which the Amendment is contained. The Participant who submitted the Amendment Submission could have a meeting with the SAP regarding the proposed Amendments. Where the SAP assents to the Amendment, written communication will be made to the Commission, following which when the Commission confirms the Amendments to the Rules or the Grid Code, the MO is required to publish the decision and a notice of the Amendment in a national newspaper.



KEY STAKEHOLDERS

The Market Rules for the Transitional and Medium-Term
Stages of the Nigerian Electricity Supply Industry

Provisions within the Market Rules are implemented and enforced by the following stakeholders:





System Operator (SO)

System Operation is a semi-autonomous unit within the Transmission Company of Nigeria (TCN). The SO is responsible for planning, dispatch, and operation of the power system. The SO also implements open access and new connections of equipment or loads in collaboration with the Transmission Service Provider (TSP). The SO develops electricity demand forecasts, undertakes operation planning and maintenance outages, etc. The SO also implements the Grid Code and drafts amendments where necessary to guarantee an efficient and reliable power system. The SO has the power based on the Rules to receive and validate Dispatch Nominations by Generators, and Dispatch in accordance with the Grid Code, and confirms and/or reports on Generation Unit Availability, in addition to other functions as stipulated in the Rules.

Market Operator (MO)

The MO is responsible for the administration of the market and implementing the market in a manner that guarantees efficiency, transparency, and non-discrimination.

The MO facilitates the development of a sustainable and competitive Wholesale Electricity Market and coordinates the participation of the electricity market with Regional Wholesale Markets or Regional Trading Arrangements. The MO also administers, supervises, and implements the Market Rules, admits, and registers Participants and performs all other functions as defined and prescribed within the Rules.

Rules Working Groups (RWG)

The SO and MO may establish Working Groups that would include several representatives of Participants and the TSP as it deems necessary. The representatives will be qualified and skillful enough to discharge their duties. The functions of the Group members are to review technical matters in relation to system operation, planning, maintenance, coordination, etc. as requested by the SO or the Grid Code Review Panel periodically. In addition, the Working Groups assist the SO in formulating technical requirements and supports with the development of Operating Procedures.



Stakeholder Advisory Panel (SAP)

The Panel is constituted by the NERC and has the responsibility of reviewing the provisions contained in the Market Rules regularly and may propose and approve amendments. The Stakeholder Advisory Panel advises the NERC on specific technical issues relating to the operation of the power market administered by the Market Operator and is also responsible for submitting Grid Code amendments to the NERC.

Dispute Resolution Counsellor (DRC)

The Dispute Resolution Counsellor is appointed by the NERC to administer and give effect to the dispute resolution provisions within the Market Rules (and Grid Code). The Dispute Resolution Counsellor specifies the format for notices of dispute and response to such notices, nominates members of the Dispute Resolution Panel, and assigns members of the Dispute Resolution Panel to resolve disputes through alternative dispute resolution mechanisms.

Dispute Resolution Panel (DRP)

The Dispute Resolution Panel is constituted by NERC who also appoints members of the panel. The Dispute Resolution

Panel is responsible for arbitrating and resolving disputes between the System Operator and Market Operator, a transmission licensee and any participant in the electricity industry, the Market Operator and any person who has been denied certification by the Market Operator as a participant, and disputes between participants. Members of the Dispute Resolution Panel are required to act impartially in the exercise of their powers and duties.

Grid Code Review Panel (GCRP)

The Grid Code Review Panel is constituted by the NERC, with the main responsibility of amending provisions contained in the Grid Code through regular review, consultation, research, and the consideration of amendment submissions by Users and Participants in the electricity industry. The Panel assesses proposals of a technical nature to amend the Grid Code, reviews all amendments to the Grid Code, publishes recommendations as to amendments to the Grid Code, issues guidance in relation to the implementation of provisions contained in the Grid Code, and considers changes which may be necessary to the Grid Code arising out of any unforeseen circumstances.



The Nigerian Electricity Regulatory Commission (NERC)

NERC is the primary body responsible for the enforcement of the Market Rules. The Commission by the Rules constitutes a SAP which possesses functions, powers and responsibilities relating to the periodic review of the Rules, the Grid Code, and advising the Commission on specific technical issues relating to the administration of the market; appoints a Dispute Resolution Counsellor that constitutes the Dispute Resolution Panel that handles the applicable disputes as provided for in the Rules, a Grid Code Review Panel that ratifies and examines the performance standards, environmental health and safety operations undertaken by Participants. The Commission also has the authority to create other Panels and Committees as may be necessary for the attainment of an efficient and profitable market structure.



PRICING **AND TARIFFS**

**The Market Rules for the Transitional and Medium-Term
Stages of the Nigerian Electricity Supply Industry**

PRICING AND TARIFFS



The Multi Year Tariff Order (MYTO) is the governing framework for pricing and tariffs. The MYTO is also used alongside Settlement Statements in the electricity industry for the calculation of Energy purchased by and sold to Participants.

INCENTIVES AND INVESTMENT OPPORTUNITIES

The Market Rules for the Transitional and Medium-Term
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INCENTIVES AND INVESTMENT OPPORTUNITIES



The Market Rules provides opportunities for investment in electricity generation in the following ways:

- **Black Start Capability:**²⁴ Black Start Capability is the capacity of generating power plants to recover from a total emergency shutdown of the grid through an auxiliary power source without any electrical energy supply outside the generating facility. The SO procures such Black Start Capability during periods of emergency, and is thus a significant aspect to any generating facility which must be invested in.
- **Bilateral Contracting:** The Rules anticipate and make provision for bilateral contracts between stakeholders in the electricity sector 25 as a means for the sale and purchase of electricity between power producers and consumers; thus, warranting much-needed investments in power production, especially by private and independent power producers.²⁶



SANCTIONS AND PENALTIES

The Market Rules for the Transitional and Medium-Term
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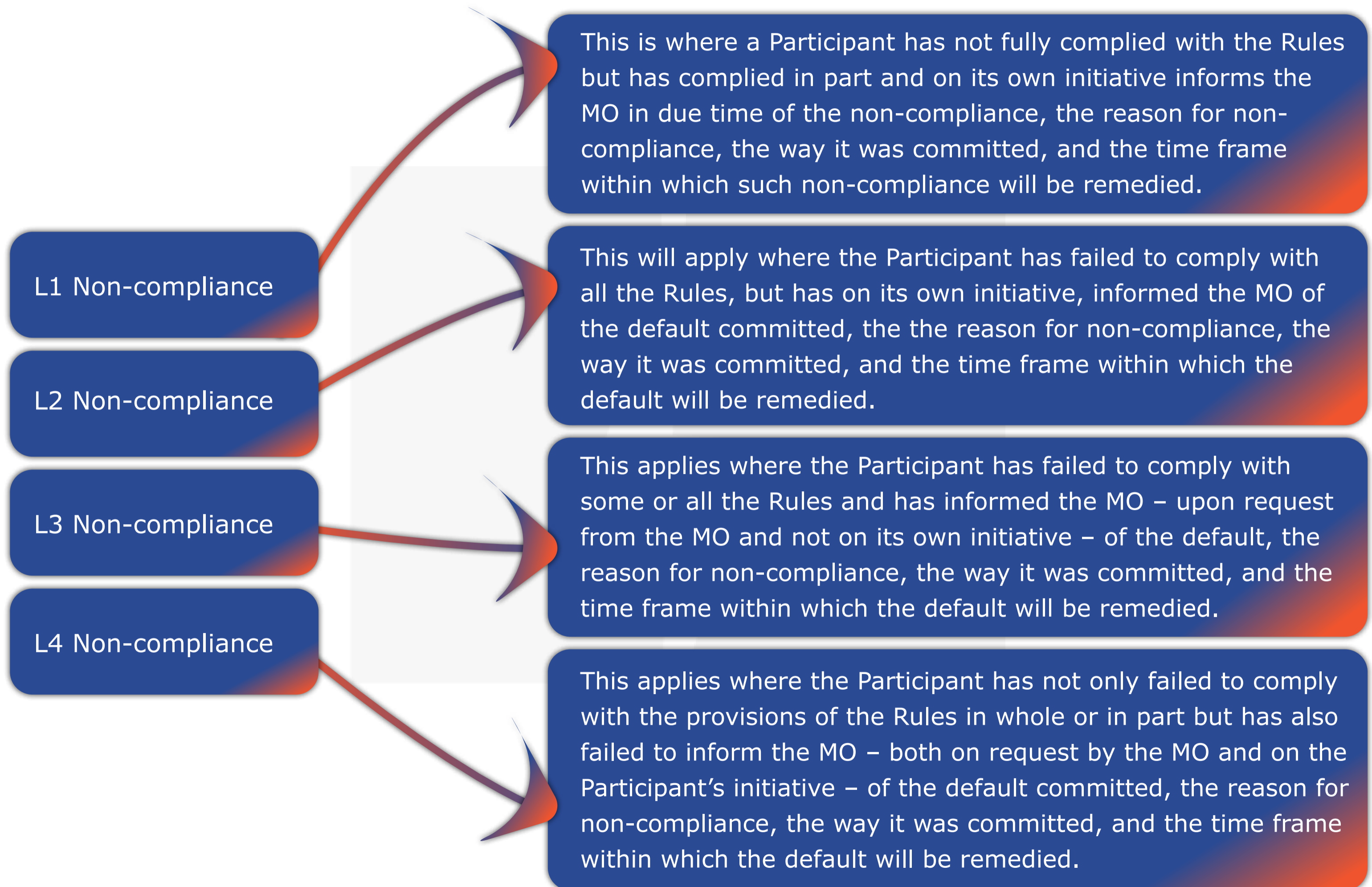
Where the MO considers that a Participant has breached any of the Rules, the Participant will be notified with details of the alleged breach, the time within which the Breach must be remedied, and Sanctions that will be implemented where the Breach is not remedied. The MO may also direct the Participant to cease the activity or practice constituting the Breach; impose additional or more stringent record-keeping or reporting requirements on the Participant; or issue a non-compliance letter or financial penalties to the Participant. If the Participant further defaults in adhering to the Directives of the MO, the MO can suspend the Participant in question from participating in the power market via a Suspension Order; which will only be lifted when the Participant has remedied the defaults. Such Suspension Orders may also be extended by the MO upon notice to the suspended Participant.

In other instances, the MO may, after providing due notice to the Participant, terminate the right of the entity to participate in the electricity market via a Termination Order, in cases where a suspended Participant has not remedied the defaults which caused the issuance of the

former Suspension Order to the satisfaction of the MO within the stipulated timeframe following the issuance of the Suspension Order, and in instances where the suspended Participant has notified the MO that it is unlikely to remedy the default in question. A Termination Order may also be issued if the MO determines that a Participant has persistently breached the Rules or the Grid Code. Upon the issuance of a Termination Order by the MO, a Disconnection Order is also to be issued for the disconnection of the Participant's facilities and equipment from the Transmission System or Distribution System to which they are connected. The MO in executing the Disconnection Order will notify the SO, and any Transmitter or Distributor whose system the Participant is connected to, of the Order, for the disconnection to take place.

Sanctions for non-compliance are detailed in the Rules.

For the imposition of financial penalties, the Rules provide for four levels of non-compliance in the electricity market. These include:



Referenced Statutory Instruments

- Electric Power Sector Reform Act (EPSRA), 2005
- Grid Code for the Nigeria Electricity Supply Industry (NESI) – Version 03, 2018
- Metering Code for the Nigerian Electricity Supply Industry – Version 01, 2013
- Distribution Code for the Distribution Sector of the Nigeria Electricity Supply Industry – Version 02, 2019

Endnotes

- 1 It should be noted that the Grid Code and the Market Rules work together to secure efficient co-ordination and adequate participation.
- 2 NERC, Grid Code. Available at <https://nerc.gov.ng/index.php/library/documents/Codes-Standards-and-Manuals/Grid-Code/>
- 3 NERC, NESI Market Rules. Available at <https://nerc.gov.ng/index.php/library/documents/func-startdown/312/>
- 4 Section 26 Electric Power Sector Reform (EPSR) Act, No. 6 LFN 2005
- 5 NERC, Electric Power Sector Reform Act (EPSR), 2005. Available at [https://nerc.gov.ng/index.php/library/documents/Regulations/Electric-Power-Sector-Reform-Act-\(EPSR\)-2005/](https://nerc.gov.ng/index.php/library/documents/Regulations/Electric-Power-Sector-Reform-Act-(EPSR)-2005/)
- 6 The Act envisages the SO encompassing the MO- Rule 1.3(a) of the Market Rules.
- 7 Section 1.3
- 8 Section 4.1
- 9 Section 4.2
- 10 Section 6.1
- 11 Section 6.2
- 12 Section 6.3.2, (a)
- 13 Section 6.4
- 14 Section 6.4
- 15 Section 6.5
- 16 Section 20.1
- 17 Section 20.1.6
- 18 Section 20.3
- 19 Sections 20.3.5 and 20.3.6
- 20 Section 20.3
- 21 Section 20.5
- 22 Section 20.6
- 23 Section 21.1.7
- 24 Section 34.8
- 25 Section 20.6
- 26 In practice, PPAs are entered into by the NBET and Generation companies or Independent Power Producers.
27. Section 20.3
28. Sections 20.3.5 and 20.3.6
29. Section 20.3
30. Section 20.5
31. Section 20.6
32. Section 21.1.7
33. Section 21.1
34. Section 21.1.3
35. Section 21.1.5
36. Section 21.1.6
37. Sections 21.1.8 and 21.1.9
38. Section 21.2.1
39. Section 21.2
40. Section 21.2.2
41. Section 21 21.3
42. Section 22.1
43. Section 22.2
44. Section 22.3.3
45. Section 22.3.6
46. Section 22.3
47. Section 22.4
48. Section 25.2
49. Section 26.1
50. Section 27.1.1
51. Section 27.4.1
52. Section 27.4.2
53. Sections 27.5.5, 27.5.6
54. Section 27.5.6(b)
55. Section 27.5.9
56. Section 27.6
57. Section 27.7
58. Section 27.8.1
59. Section 27.9.1
60. Section 27.9.4
61. Sections 27.11.1, 27.11.2, 27.11.3
62. Section 27.12.1
63. Section 27.14.13
64. Section 28.4.1
65. Part 8 of the Market Rules
66. Section 42.1.3 and 42.3.7
67. Section 42.3.1(a)
68. Section 43.4
69. Section 42.3.14
70. Cap A18, LFN 2004
71. Section 43.2.4
72. Section 43.2.5
73. Section 44.5.2
74. Ibid
75. Section 44.5.8
76. Section 44.5.10
77. Section 44.5.13
78. Section 44.5.22
79. Section 9.1
80. Section 9.2
81. Section 9.3
82. Section 10.1
83. Section 10.2
84. Section 42.2.1
85. Section 42.3.1
86. Section 42.3.7
87. Section 42.1.4
88. Appendix 9, Grid Code
89. Section 2.4
90. Section 42.2
91. Section 42.3
92. Part 7, Market Rules
93. Section 24.1. Currently, the MYTO 2020 Order is the governing framework. See <https://nerc.gov.ng/index.php/library/documents/MYTO-2020/>
94. Section 34.8
95. Section 20.6
96. In practice, PPAs are entered into by the NBET and Generation companies or Independent Power Producers.
97. Section 45.2.2
98. Section 45.2.6
99. Section 45.3.9
100. Section 45.3.11
101. Section 45.3.14
102. Section 45.4.1
103. Section 45.4.2
104. Section 45.4.6
105. Section 45.5.6
106. Section 45.5.3

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