



NIGERIA INFRASTRUCTURE  
ADVISORY FACILITY

# Market Discipline

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**27<sup>th</sup> October, 2016**

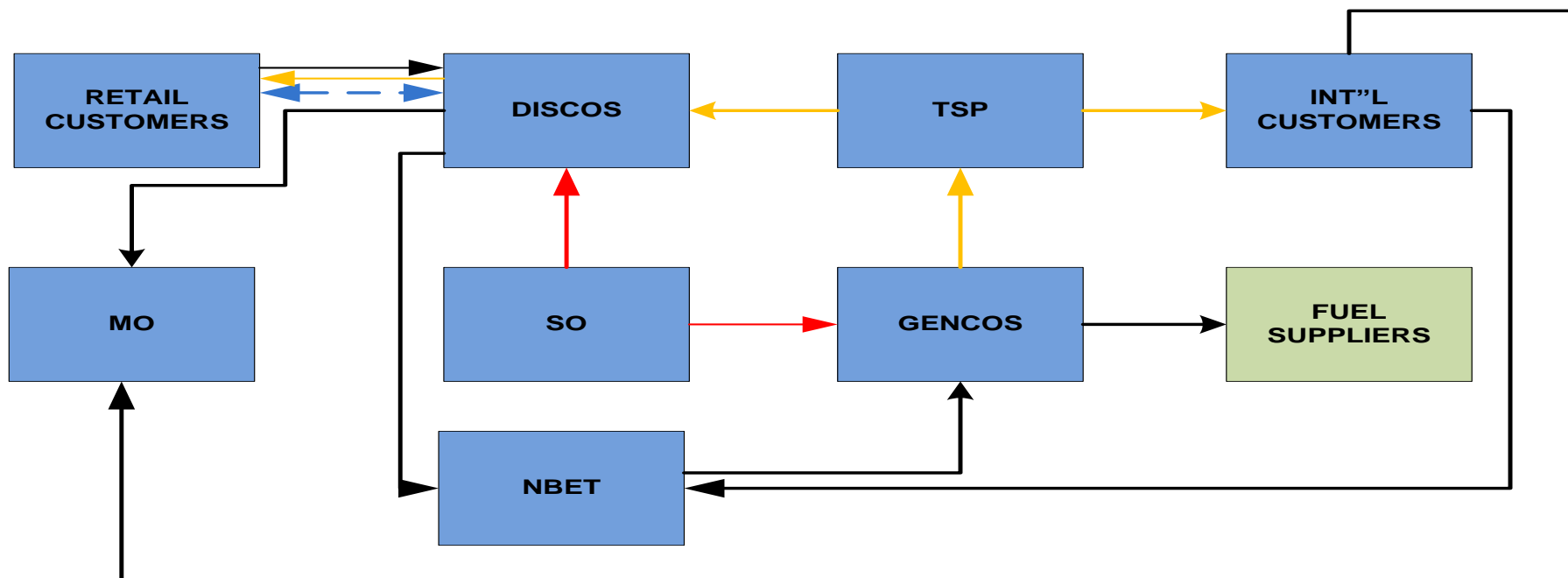
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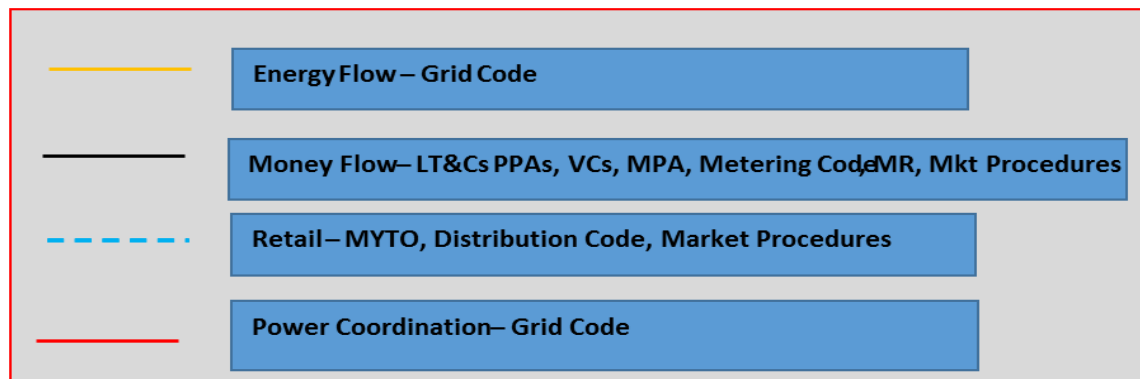
# Outline

- MARKET VALUE CHAIN
- MARKET STRUCTURE
- CRITICAL POINTS OF FAILURE
- DISCUSSION: PARADIGMS OF MARKET INDISCIPLINE
- CONCLUSION

# Market Value Chain



**NERC**



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# Market Structure

- The market is intended to evolve in stages structurally and commercially; to operate on a contractual basis and according to rules (Market Rules 6.1) from end-to-end in the Transitional Market
- The presiding contracts and rules determine the basis of relationships and obligations of the functional organisations
- The structure of the market is set up in such a way that poor performance is contagious, given the inelastic supply of generation and the need to share the limited energy on the basis of load allocation
- The current market design as envisaged is not reflected adequately in the incentives and enforcement measures for performance

# Reflection

*Electricity requires huge investments, recouped over very long periods, how can it operate on a voluntary basis?*

# Critical Points of Failure in NESI

- **Discos** – Investment (network, metering and billing, customer service) or ATCC, Remittance (energy and service)
- **Gencos** - Investment, Remittance (gas)
- **NBET** – Proactive solutions on fully activated market
- **TSP** – Investment and maintenance, boundary metering.

# Critical Points of Failure in NESI (cont'd)

- **Systems Operation** - Investment for Efficient Coordination (systems and processes).
- **Market Operations** – “market governance”; Relationships, Customer Service, Settlement.
- **NERC** – Credibility (effective, to scale, flexible, consistent, accountable), MYTO, Communications, Data, monitoring, penalties
- **BPE** – Performance agreements, Share holders Agreement

# Discussion: Paradigms of Market Indiscipline

## *Why are market participants badly behaved?*

- Is it out of **fear** to ensure self-preservation due to unstable or inadequate structures, a lack of capacity or moral hazard?
- A combination of these or a contagion at some level?
- Is it because the “policeman” has no power or is handicapped and has lost control?



# Discussion: Paradigms of Market Indiscipline

- Commercial arrangements are at best faulty, inadequate and are not being operated on a credible basis.
- The necessary capacities are not there for fully operating a commercialised market.
- That granted, work-arounds are available for SO and MO procedures.

# Fundamental Concerns that cannot be Compromised

- The tariff assumptions must be credible
- Tariff methodology must be respected and implemented
- Data-based decision making by the regulator,
- Behavioural consistency by the MO to treat complaints of market participants with equity and on the basis of rules

# Conclusions

## Key Issues to address:

- Market design – Reward performance, punish indiscipline
- Address organisational capacity issues across the value chain
- MO & NBET roles should be complementary and aligned to the MR at this stage of the market
- Implement supportive commercial arrangements
- Regulatory capacity should be improved

**THE END**