

## THE NIGERIAN ELECTRICITY SUBSIDY CONUNDRUM

---

Most countries have subsidies on energy, whether to solely benefit consumers or producers or by not adding the cost of negative externalities to energy use. Nigeria has its energy subsidies on natural gas, petrol, kerosene, electricity. The electricity and natural gas subsidies have posed an obstacle to the Federal Government of Nigeria's (FGN) power reformation. The success of the privatisation of the FGN Power Holding Company of Nigeria's (PHCN) assets is yet to cascade to the consumers due to the generating companies' complaints of gas scarcity and the Distribution Companies' (Disco) complaints of poor cost reflection in tariff (based on certain losses not accommodated in the tariffs) and transmission inefficiencies. This "hold up" is affecting the progress of the NIPP assets privatisation. Gas producers complain that low domestic gas sale prices discourage investment in domestic gas production to meet power demands. This "price increase push" at various levels of the power supply chain may result in the FGN deliberately subsidizing the cost of electricity to the consumers to ensure success in its power reformation.

The current Nigerian electricity tariff rates provide for a low charge for low income residents to be balanced out by high end consumers. The Nigerian Electricity Regulatory Commission (NERC) has faced stiff resistance from labour unions and the public whenever it altered the electricity tariff. High up the minds of the public is the question: ***"how can we pay so highly for electricity that is not constant?"*** The public is clearly unprepared to trust the FGN and pay higher tariffs now in order for power supply to increase. The electricity suppliers will certainly not agree to bear the cost of ensuring supply is increased. The FGN, reluctant as it is to enter into the subsidy "trap" as regards electricity, (since it is still battling with the petrol and kerosene subsidy corruption problems), is really left with little choice.

How can the FGN mitigate the inefficiencies typical of subsidies? As regards the gas cost to be absorbed in the proposed subsidy, the Gas Aggregator Company of Nigeria (GACN) and its NNPC overseers are responsible for agreeing the price of gas to be sold for domestic use with the oil and gas producers. The GACN and the gas seller enter into the gas sale agreement with the gas buyer after the GACN has successfully allocated the gas buyer's demand to a gas producer. Will the NERC and the NBET be included in the process for arriving at the domestic gas sale price to ensure that the increased gas producing cost to be subsidized is a true cost? Will the gas producers submit their books for examination by the Electricity regulator? For the Discos' losses, can the NERC through an open book examination, determine the real value of these losses? Can it determine if the losses claimed should have been part of anticipated projected losses that the Discos ought to have provided for in their forecasts at the time of bidding for the assets? Are the Discos making profits that can absorb part of the losses or should the FGN subsidy absorb the full loss figures?

The electricity subsidy will have to be for a specific period, its value well set out, the process for phasing out the subsidy prior to the lapse of the defined

period agreed and the due subsidy sums' distribution mechanism and beneficiaries agreed well in advance. Also, which of the FGN electricity supervising entities will be responsible for paying the subsidy or will the Federal Ministry of Finance pay the subsidy directly to the listed beneficiaries? Considering the fact that for many years to come the Nigerian Government will still be subsidizing the cost of electricity with regards to the negative externalities involved, including pollution arising from oil and gas production and use of other natural resources, it may not hurt the FGN to have a deliberate electricity subsidy program to ensure increased electricity supply. On the other hand, can the nation really bear the risk of another subsidy "pit" in the electricity sector? Will the anticipated benefits to the Nigerian economy, where electricity supply is increased, sufficiently outweigh the subsidy costs? Electricity subsidy in Nigeria - to be or not to be?

**Tonbofa Ashimi**