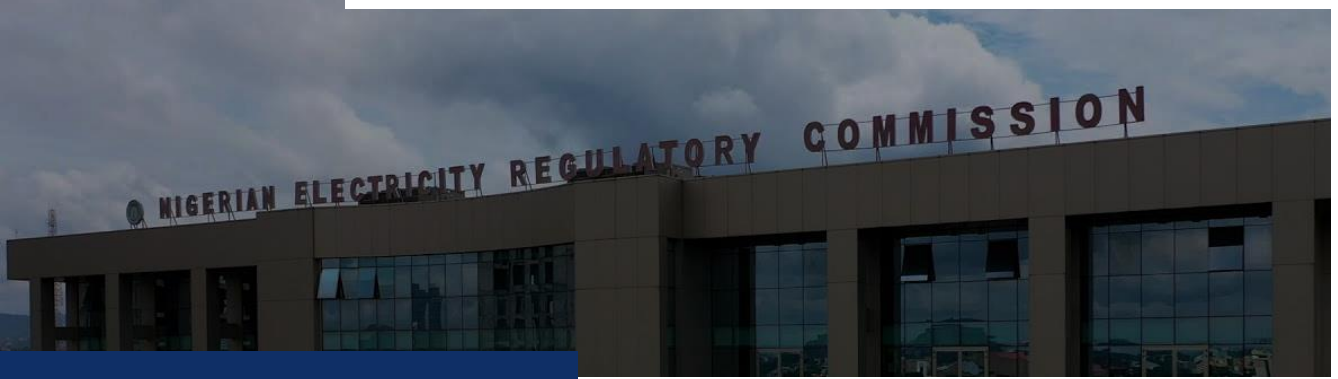




INDUSTRY UPDATE:

**UNBUNDLING OF THE TCN
AND THE ESTABLISHMENT OF AN
INDEPENDENT SYSTEM OPERATOR:
WHAT THIS MEANS FOR THE POWER
SECTOR.**



INTRODUCTION

In taking a significant step towards the development of the Nigeria's power sector, the Nigerian Electricity Regulatory Commission ("NERC") by an order cited as the **Order on the Establishment of the Independent System Operator [Order No: NERCC/2024/45]** ("Order") announced the unbundling of the Transmission Company of Nigeria ("TCN") and the establishment of a new entity, the Nigerian Independent System Operator of Nigeria Limited ("NISO"). This move is set to reshape the management of the electricity transmission sub-sector in the country.

BACKGROUND

The TCN has held a dual role in the Nigeria power sector, functioning under two licenses, as both the transmission service provider, responsible for physically maintaining and operating the national transmission grid, and the system operator, overseeing the entire electricity market and ensuring its smooth operation.

The repealed Electric Power Sector Reform Act (EPSRA) 2005 had provided for the creation of an independent system operator body in which the TCN will transfer its system operator license, however with no clear guideline to its achievement. Subsequently, the Electricity Act 2023 ("the Act") which repealed the EPSRA came into law in June 2023 and made clear provisions regarding the transfer of the license of system operator from the TCN to an independent body to be known as the Nigerian Independent System Operator of Nigeria Limited (NISO), including its incorporation, governance and the transfer of all assets and liabilities to NISO¹.



THE ORDER

In fulfillment of the provisions of the Act, the NERC has ordered the Bureau of Public Enterprises ("BPE") to incorporate NISO as a private company limited by shares by **May 31, 2024**. NISO is to carry out market and system operation functions stipulated in the Act and the terms and conditions of the system operation license issued to TCN. The initial subscribers for NISO shall be the BPE and the Ministry of Finance Incorporated.

TCN has been ordered to conclude the identification and mapping of all assets and liabilities for the system and market operation portion of its business and forward same to NERC and the BPE on or before 30th June 2024, after which the BPE shall, through the National Council on Privatization, conclude the transfer of all market and system operation assets and liabilities held by TCN to NISO on or before 31st August 2025 ("Completion Date").

Finally, TCN has been mandated to relinquish its system operation license to NERC within 7(seven) days of the Completion Date.

RESPONSIBILITY OF NISO

NISO shall be licensed as an independent system operator and shall be responsible, amongst others, for:

1. Market operation: This includes generation scheduling, commitment and dispatch, ensuring grid security, and managing ancillary services.
2. System Planning: NISO will oversee the planning and development of the transmission network to meet future electricity demand.
3. Settlement: NISO will facilitate the financial settlement between market participants, ensuring generators are paid for the electricity they deliver, and distribution companies are billed accordingly.



WHAT DOES THIS MEAN FOR TCN?

1. TCN will now operate solely under one license, which is the transmission service provider license.
2. While TCN relinquishes its system operation functions, it is still responsible for:
 - a. Developing and maintaining the physical infrastructure of the national transmission grid.
 - b. Wheeling electricity from generation companies to distribution companies.
 - c. Managing the transmission assets and liabilities.

BENEFITS OF THE UNBUNDLING

1. **Increased Efficiency:** An independent NISO can focus solely on optimizing the electricity market, potentially leading to more efficient dispatch and grid management.
2. **Enhanced Transparency:** With a separate entity managing the market, there is greater transparency in decision-making and reduced potential for conflicts of interest.
3. **Improved Investment Climate:** A clear separation between TCN and NISO could attract more investment in the sector by creating a more predictable and market-oriented environment.

CONCLUSION

The unbundling of TCN and the establishment of NISO marks a significant step towards a more robust and efficient electricity market in Nigeria. Once operational, NERC will closely monitor NISO's performance and ensure it adheres to its regulatory framework. This development in the Nigerian power sector has the potential to improve grid stability, attract investment, and ultimately deliver a more reliable power supply for Nigerians.

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