

MONEY AS THE ROOT OF NIGERIA'S POWER SECTOR'S EVILS

The current problems bedeviling the Nigerian Power Sector are all tied to money. The public uproar surrounding tariff increase, which has been taken before the Nigerian Court, (this topic is off my discussion radar, since our law firm represents the Nigerian Electricity Regulatory Commission "NERC" in Court on the issue on tariff determination) is all about money. The Distribution Companies' "Disco" legalizing of their Association to give them a voice, is mostly about money. The gas supply crises, transmission losses, low supply from generating companies - are all about money, money, money. So how did the financial squeeze on the sector begin and what has been done and is being done about it?

History Of Financial Squeeze

The Bureau of Public Enterprises (BPE) effected the acquisition of the power assets owned by the Federal Government of Nigeria (FGN)'s [Power Holding Corporation of Nigeria](#) through an open bidding process. [These](#) FGN's power assets were priced in United States Dollars and the preferred bidders who were Nigerian companies had to obtain dollar financing to pay their bid prices. Primarily Nigerian banks did these financing. The preferred bidders thus became owners of various Generating Companies "Gencos" and Discos with performance parameters they were obligated to meet towards improving their services. The privatized Gencos and Discos took over companies with existing liabilities towards gas suppliers and other entities. The FGN agreed for these liabilities to be transferred to a government formed vehicle called the Nigerian Existing Liabilities Management Company "NELMCO". The privatized Gencos and Discos have dollar liabilities to banks for the acquisition and need more financing to invest in the power assets for optimal performance. Their one sure source of income was the tariff earned from power supply, which they claim is not cost reflective. The financial squeeze on the sector commenced.

Government's Aid To Ease Financial Pressure

In order to ease the sector's financial squeeze, the FGN set up the Nigerian Electricity Market Stabilization Facility to pay accrued debts owed to various service providers including the Nigerian Gas Company, oil and gas Joint venture partners by the Nelmco and the new Gencos and Discos. These were debts that had accrued prior to the privatization and during the period before the Nigerian Electricity Supply Industry, were declared as fit for market forces to somewhat determine price of supply. The mechanism for disbursement of the ₦213, 417, 034.34 Billion was for the CBN to purchase debenture notes issued by a selected refiner of the debts. The CBN in June 2015 made a second payment under this facility to the beneficiaries.

The CBN also set up the Power Aviation Investment Fund "PAIF" which is a N300 Billion fund aimed at financing projects or refinancing loans of eligible Discos and Gencos through a participating bank. The loan pursuant to this Fund is meant to be long term at single digit rates.

The NERC has also directed the Discos to consult with their consumers towards determining a cost reflective tariff to be approved by the NERC.

Has The Government's Aid Helped?

The question is "with all these financial aid given to the NESI, are there improvements in the NESI towards hedging closer to the ultimate goal of improving power supply?" The response from the power supply chain participants will probably still be negative. The gas suppliers, for example, will say that the benchmark price of gas at US\$2.50/mcf is still not encouraging for investments in the gas production and supply. Investment in gas is capital intensive which is why most oil producers find it cheaper to flare associated gas that re-inject. The gas suppliers prefer entering private gas supply transactions than to meet their required domestic obligations to the power sector. Only a few of the Discos could access the PAIF, meaning a number of the Discos are illiquid with huge liabilities, so they will say a lot more needs to be done to ease the financial squeeze. Some of the privatized Gencos could also not access the PAIF and are in the same boat as the Discos. Greenfield Gencos require funding, which foreign investors and

financial institutions are more interested in providing. The public consumers will say they do not feel any improvements.

So what Else Can Be Done?

The FGN should encourage investments in captive power plants of 1MW or less which will reduce the sums needed for power project, increase the construction period for power plants and reduce the time within which power from these small plants will be available for supply. The CBN has tightened access to foreign exchange in Nigeria in order to ease the pressure on naira created by a high demand for dollars. The CBN should include transactions in the power sector on its lists for transactions for which foreign exchange can be bought direct from the CBN. This will enable Gencos and Discos access to foreign exchange to meet their dollars denominated exposures. The FGN also needs to be clear on its policy as regards power. The uncertainty as regards the plans of the new FGN to power is contributing to the stagnation in investments in the power sector. The FGN also needs to concretize the support it will give to the Nigerian Bulk Electricity Trading Company Plc. "NBET" towards guaranteeing the NBET's payment obligations under bulk power purchase agreements. The potential in Nigeria's power sector is huge and there is still interest internationally in investing in various parts of the power supply chain. The FGN needs to urgently collaborate with the sector's participants to ensure power supply is increased. I am certain that the fact that attacking the abysmally low power supply in the country is one of the certain ways to wealth creation is a fact that transcends political party membership and differences.

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