NIGERIAN POWER SECTOR REFORMS AND PRIVATISATION

By

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Outline

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- Design of the Nigerian Electricity Market
- Privatization Strategy
- Current Status of Transaction
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Introduction

At the onset of the democratically elected civilian administration in 1999, the Nigerian electric power sector had reached, perhaps, the lowest point in its 100 year history:

- Of the 79 generation units in the country, only 19 units were operational. Average daily generation was 1,750 MW.
- No new electric power infrastructure had been commenced and completed between 1989-1999. The youngest plant was completed in 1990 and the last transmission line built in 1987.
- An estimated 90 million people were without access to grid electricity.
- Accurate and reliable estimates of industry losses were unavailable, but were believed to be in excess of 50%.
FGN Power Reform Agenda

FG’s reform of power sector is gingered mainly by
- The need to reduce the cost of doing business in Nigeria in order to attract new investment through provision of quality and dependable power supply to the economy for industrial, commercial and socio-domestic activities;
- The growing demand for stable and reliable power requiring heavy investment in sector; and
- The desire and need to be up to global standards.
- The need for improvement in the efficiency of the distribution, generation and transmission network which is in a comatose state.
And our vision for its Achievement

Through promotion of:

- Competition
- Good corporate governance and financial discipline
- Social accountability and efficient use of resources
- A sustainable environment for meeting the need/demand
NIGERIA ADOPTED THE WHOLESALE COMPETITION MODEL AS ITS LONG RUN MARKET DESIGN

THE NIGERIAN ELECTRICITY MARKET IS EXPECTED TO EVOLVE THROUGH THE FOLLOWING STAGES:

- **PRE –TRANSITIONAL STAGE** (Where we are today)
  This is the natural stage of the industry during early reform implementation.

- **TRANSITIONAL STAGE** (Where we about to move into)
  - Demand will be bigger than the supply.
  - All trading is made through contracts.
  - Trading in this stage is “physical” through contracts.
  - Existing power plants will traded through vesting contracts
  - The conditions and prices of vesting contracts are not freely negotiated.
  - Transparent and competitive mechanisms for entering in the market (new PPAs).
**MEDIUM TERM STAGE**

- There is competition to enter in the market.
- There is competition in the market to supply the demand.
- Contracts can be negotiated freely and there can be “financial contracts”.
- There is a centralised merit order dispatch by the System Operator, where Generators must submit the dispatch nomination (availability, constraints, costs / prices) to be used in the security constrained economic (least cost) dispatch.
- Generators submit to the Market Operator contract nomination.

**LONG TERM STAGE**

Similar to the medium term stage but characterized by more competition and greater freedom by eligible consumers to choose their suppliers.
Milestones Achieved (National Electric Power Policy)

To Transform Sector FGN/ BPE took the following steps:

• The Electricity (Amendment) Decree 1998 and the NEPA (Amendment) Act 1998 were passed, terminating the monopoly status of NEPA and inviting private sector participation in the electricity sector.

• The Electric Power Reform Implementation Committee (EPIC) was inaugurated by BPE and resulted in FEC approving the National Electric Power Policy in September 2001, which recommended:
  • Establishment of a sector regulator.
  • Privatization of the electric power sector
  • A market trading design and new rules, codes and processes
In March 2005 the Federal legislature passed the Electric Power Sector Reform Act. The Act outlined the framework of the reform as follows:

- Unbundle the state owned power entity into generation, transmission and distribution
- Provide for the transfer of assets, liabilities and staff of NEPA to PHCN and then to successor generation, transmission and distribution companies
- Create a competitive market for electricity services in Nigeria
- Set up an independent regulator
Milestones Achieved (Implementation of EPSR Act)

• NEPA was transformed into PHCN Plc as a holding company for the assets, liabilities, employees, rights and obligations of NEPA. The process of incorporation of PHCN was concluded on 5th May 2005;

• NCP by an Order published in a Federal Gazette gave 1st July 2005 as the initial transfer date of assets, liabilities and staff of NEPA to PHCN;

• NERC was inaugurated in October 2005 as the sector regulator
• In November 2005, 18 New successor Companies comprising of 6 generation companies, 1 transmission company and 11 distribution companies were incorporated;

• The Market Rules to guide the operations in the electricity industry were approved in 2008 (NERC).

• Liquidation Committee established on April 12, 2011 to seamlessly wind down the operations of PHCN
Milestones Achieved (Implementation of EPSR Act)

• Relevant market codes (Grid, Distribution, Performance, Metering etc) have been issued;
• Companies to carry on the role of bulk trading in transition and liability management have been incorporated as Nigeria Bulk Electricity Trading Co Plc and Nigerian Electricity Liability Management Company (NELMCO);
Milestones Achieved (Implementation of EPSR Act)

- Rural Electrification policy developed by the Bureau was approved in 2006 and the Agency established but operations suspended in 2009;
- Working With PTFP to articulate operation of agency post privatization
- On 1\textsuperscript{st} July 2006, the assets, liabilities and staff of PHCN were transferred to the successor companies, thereby granting the latter greater operational autonomy
• Approved privatisation strategies for the Successor Companies and TCN:
  - Core investor sale
  - Asset sale
  - Management Contract
  - Concessions
Core Investor Sale Method was approved for Distribution Companies (Discos) privatisation.

Bidding parameters will primarily be based on:

• the use of quality of service/efficiency parameters considered against investment proposals made by bidders aimed at reducing Aggregate Technical, Commercial and Collection (ATC&C) losses over an agreed time frame;

Other key Characteristics of the strategy:

• The strategy will be built around the Multi Year Tariff Order (MYTO);
• MYTO will stipulate the annual investment requirement, allowable operational expenditure, approved rate of return on equity and other allowable expenses for each distribution company;
• Emphasizes technical, financial and managerial competence of operators

• Loss reduction and investments, are the main parameters for assessing potential bidders;

• Has the shortest curve for reducing subsidies, guarantees and section payment delinquency

• The benefits for efficiency improvements will be shared between the operators and consumers through tariff reductions.

• Operators who fail to deliver the agreed level of annual efficiency improvements will be penalised.

• Investors have certainty on recovery of investments

• Government for the first will begin to earn some return on its remaining equity interest in the Discos and can within a specified time cease financial support altogether.
PRIVATISATION Contd.: TRANSMISSION COMPANY
- 5-Year Management Contract is proposed.

- Management Contractor to oversee the entire TCN operations including Market and System Operations.

- Management Contract will bring required expertise to transform TCN into a world class company.

- Skills necessary to manage System and Market Operations in a liberalized market to be provided by the Management Contractor.

- Technical loss reduction and network improvement Criteria to be adopted in selecting the Management Contractor.

- Creation of Transmission Investment Fund in line with MYTO projection of annual transmission investment.

- The cost of the Management Contract will be borne from TCN revenues
The management contract is designed to achieve the following objectives:

- Reduce electricity losses during transmission;
- Provide for the achievement of certain predetermined targets that would improve grid security and general performance;
- Have reward and penalty clauses as incentives for success;
- Provide efficient management of government investments;
- Improve project management capacity of TCN.
• Ensure adequate and equitable generation dispatch according to a fair merit order based on sound regulatory principles;

• Ensure fair market settlements between electricity traders;

• Provide for skills and expertise transfer to Nigerian counterparts; and

• Ensure that TCN responds more actively to infrastructure requirements of the sector.
GENCOS PRIVATISATION STRATEGIES: THERMAL
Generation
• 4 remaining Gencos up for privatisation ... Core Investor/Concessions

Thermal stations

Geregu Power PLC
• Kogi State
• installed capacity, 414 MW
• on stream Dec 2007

Ughelli
• Delta area
• built between 1966 and 1975
• installed capacity, 972 MW
• operational units recently refurbished

Sapele Power Plc
• Delta State

Afam Power Plc
Comprising of Afam I-V
• Rivers State
Hydro stations

Kainji HydroElectric Plc (Comprising Kainji & Jebba Plants)
• first hydro power station, established on the River Niger
• total installed capacity, 1344 MW

Shiroro Hydro Electric Plc
• on the Shiroro Gorge on the River Kaduna
• newest Hydro Station established in 1990
• installed capacity, 600 MW

Proposed for concession
There are 207 prequalified bidders; 80 for the Discos, 87 for the Thermal Gencos and 40 for the Hydro Gencos.

We have informed all prequalified bidders by sending them individual letters and publishing the names of the companies in two national daily newspapers.

Included in the letter also is the revised time line for the transaction indicated as follows.
## Transaction Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Invitations to short listed bidders</td>
<td>03 June 2011</td>
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<tr>
<td>Access to draft industry agreements, including Power Purchase Agreement and Vesting Contract for investor consultation</td>
<td>20 June 2011</td>
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<tr>
<td>Last day for investor feedback on relevant agreements</td>
<td>11 July 2011</td>
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<tr>
<td>Deadline to confirm intention to bid, $20,000 fee due for purchase of RFP documents</td>
<td>15 July 2011</td>
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<tr>
<td>Issuance of RFP, Information Memorandum Documents</td>
<td>01 August 2011</td>
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<td>Access to virtual Data Room</td>
<td>01 August 2011</td>
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<tr>
<td>Pre-Due Diligence Conference</td>
<td>16 August 2011</td>
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<tr>
<td>Bidders’ Site Visits</td>
<td>16 August 2011 - 1 November 2011</td>
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<tr>
<td>Sale/Concession Review Conference</td>
<td>14 September 2011</td>
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<td>MYTO Review Conference</td>
<td>15 September 2011</td>
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<tr>
<td>Pre-Bid Conference</td>
<td>03 October 2011</td>
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<tr>
<td>Bids to be Submitted</td>
<td>1 November 2011</td>
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<tr>
<td>Complete Bid Evaluation Process</td>
<td>29 November 2011</td>
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<tr>
<td>Commence Negotiation with Bidders</td>
<td>6 December 2011</td>
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Percentage Share to Core Investors

- Considering divesting 70% of FGN shares to the core investor in the distribution companies

- The advantage of the above strategy

- Potential to maximize revenue earned by the Government in short run

- Lower cash calls in long run

- Greater investor confidence
• Out of the FGN 30% up to a maximum of 10% (of the total holding) shall be offered equally among all states within the jurisdiction of a certain distribution company.

• In case one (or more) of the states refuse to (or do not have the financial capacity) to accept the offer the shares can be offered to the other remaining states or even retained by the FGN.

• Out of the remaining 30% shares up to a maximum if 1.5% of the total holding (or 5% of the retained shares) may be offered to the employees.
Percentage Share to Core Investors

• The remaining shares of 18.5% shall be retained by the FGN

• This remaining FGN shares is to be sold through an IPO on reaching 5 years consecutive positive cash flow following privatization of the companies

• In order to attain the required 25% shareholding for the IPO some shares would be ceded by the states and private investors
Conclusion

• The ambition of the FGN is to meet the vision 20: 2020 target of 40,000 MW which requires an investment in power generating capacity alone of at least US $3.5 billion per annum for the next 10 years.

• In addition, large investments will also have to be made in power transmission and distribution.

• The successful privatization of the successor companies is dependent on the involvement of all stakeholders like SEC in mobilizing all technical and financial resources to ensure a closure of the transaction.
Thank You