



**THE PRESIDENCY
BUREAU OF PUBLIC ENTERPRISES**

Update - Privatization Issues

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**A Presentation at the 1st National Council on
Power Conference (NACOP)**

11th August 2014



Outline

- Why was reform Necessary?
- Objectives of FGN Privatization Programme.
- Design of the New Nigeria Electric Supply Industry (NESI).
- Privatization Transaction Strategy.
- Milestones Achieved.
- Benefits & Effects of Privatization of the Power sector
- Prospects & Challenges
- Conclusion

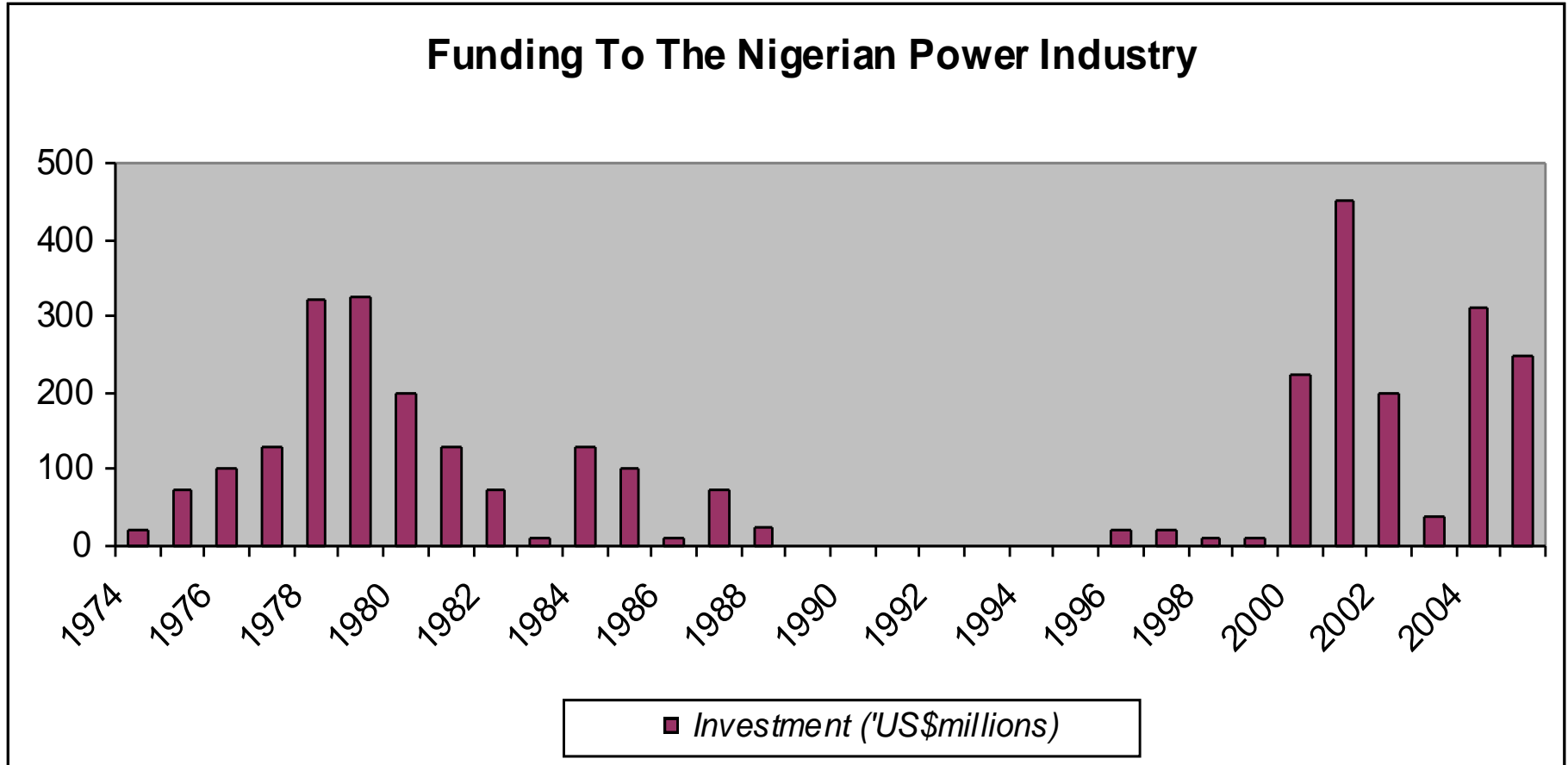


Why Reform....

- ✓ 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 was built between 1991-1999.
 - The newest 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%.





Why Reform.... Cont'd



Source: Presidential Retreat On Power

Why Reform... Cont'd

Nigeria on the World Stage



Country *	Generation Capacity (GW)	Watts per capita
S. Africa	40.498	826
Egypt	20.46	259
Nigeria	5.96	40 (25 available)
Ghana	1.49	62
USA	977.06	3,180
Germany	120.83	1,468
UK	80.42	1,316
Brazil	96.64	486
China	623.56	466
India	143.77	124
Indonesia	24.62	102

Sources:

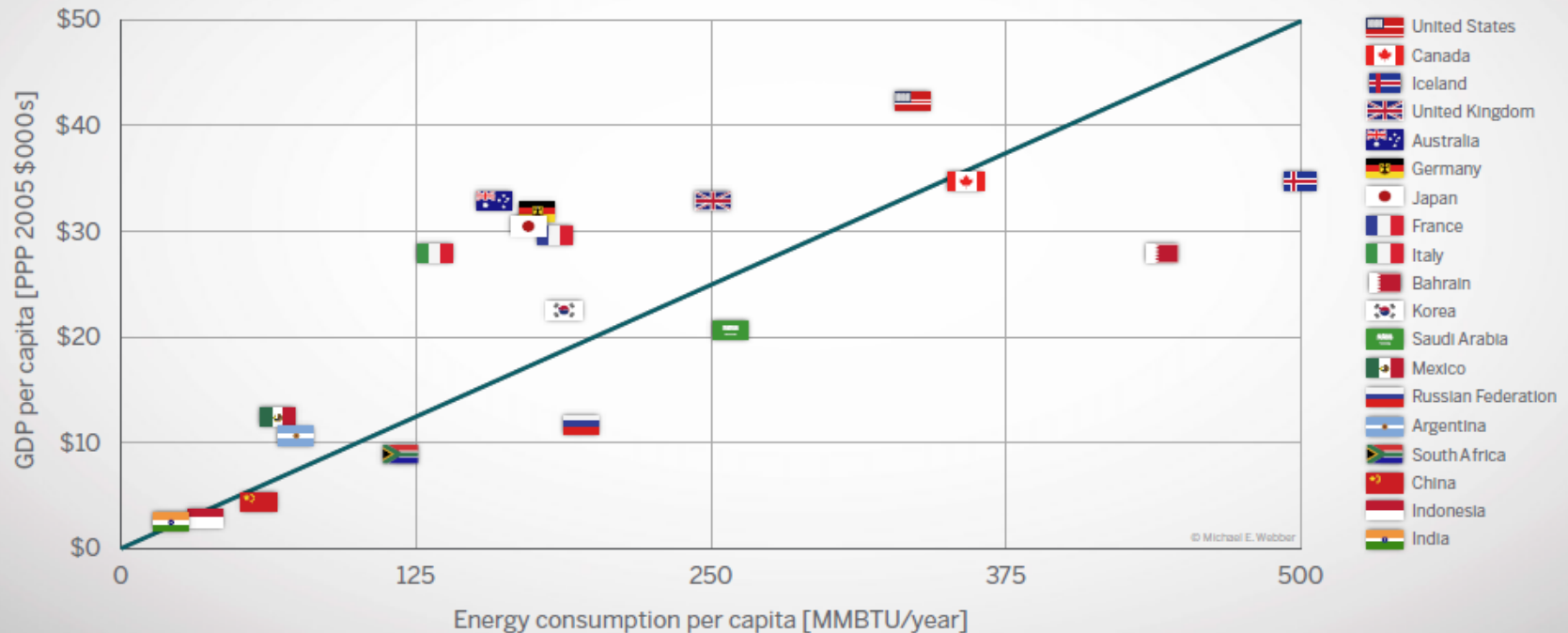
- World Fact book - <http://www.cia.gov/library/publications/the-world-factbook/index.html>

* Energy Information Administration – www.eia.doe.gov

Why Reform.... Cont'd

Energy Consumption and Affluence are Correlated

Source: World Bank 2011 (2005 Data) - Graphic: Michael E. Webber, The University of Texas at Austin

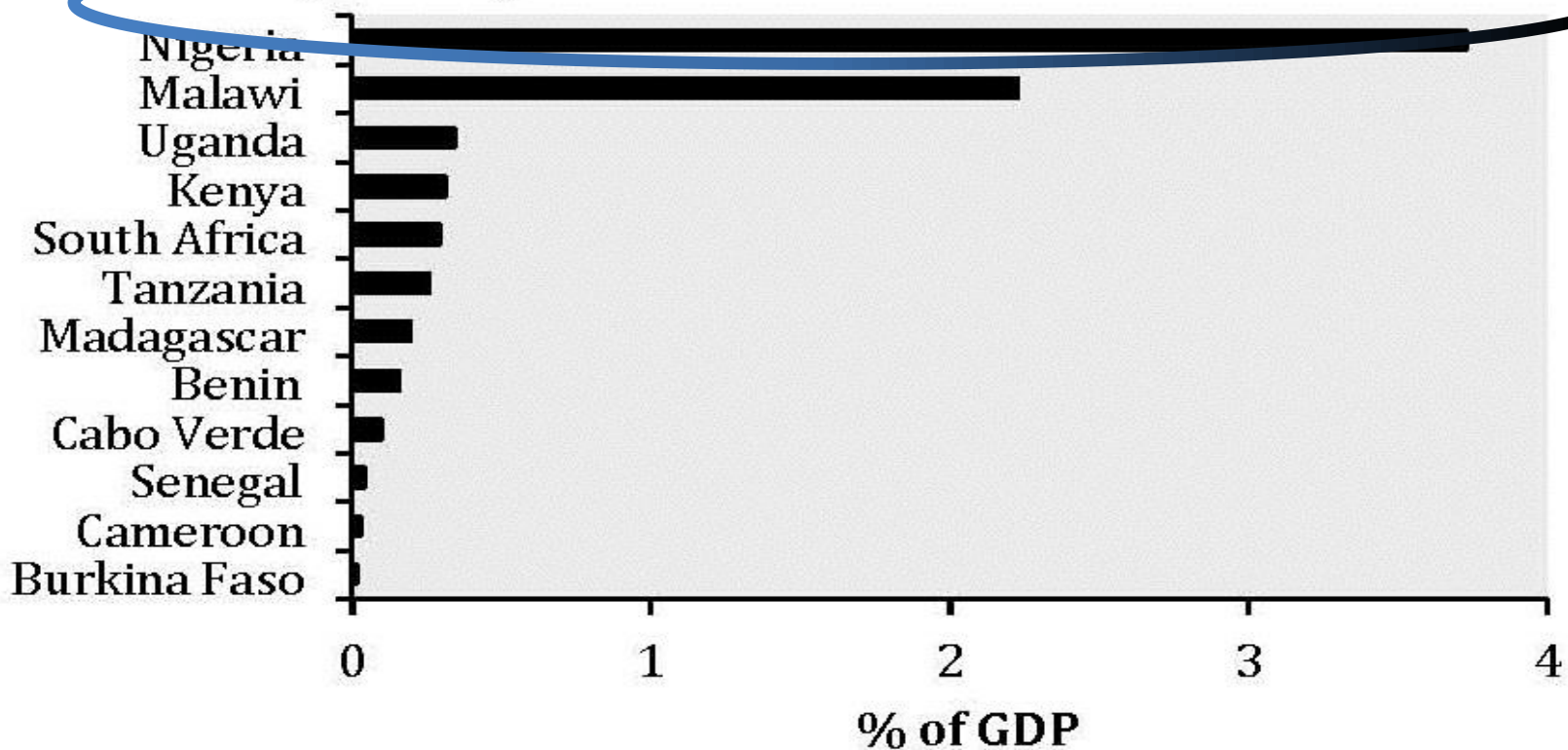


Why Reform.... Cont'd

Effect of Power Outages On GDP

Figure 10. Power outages are a major tax on Africa's economies

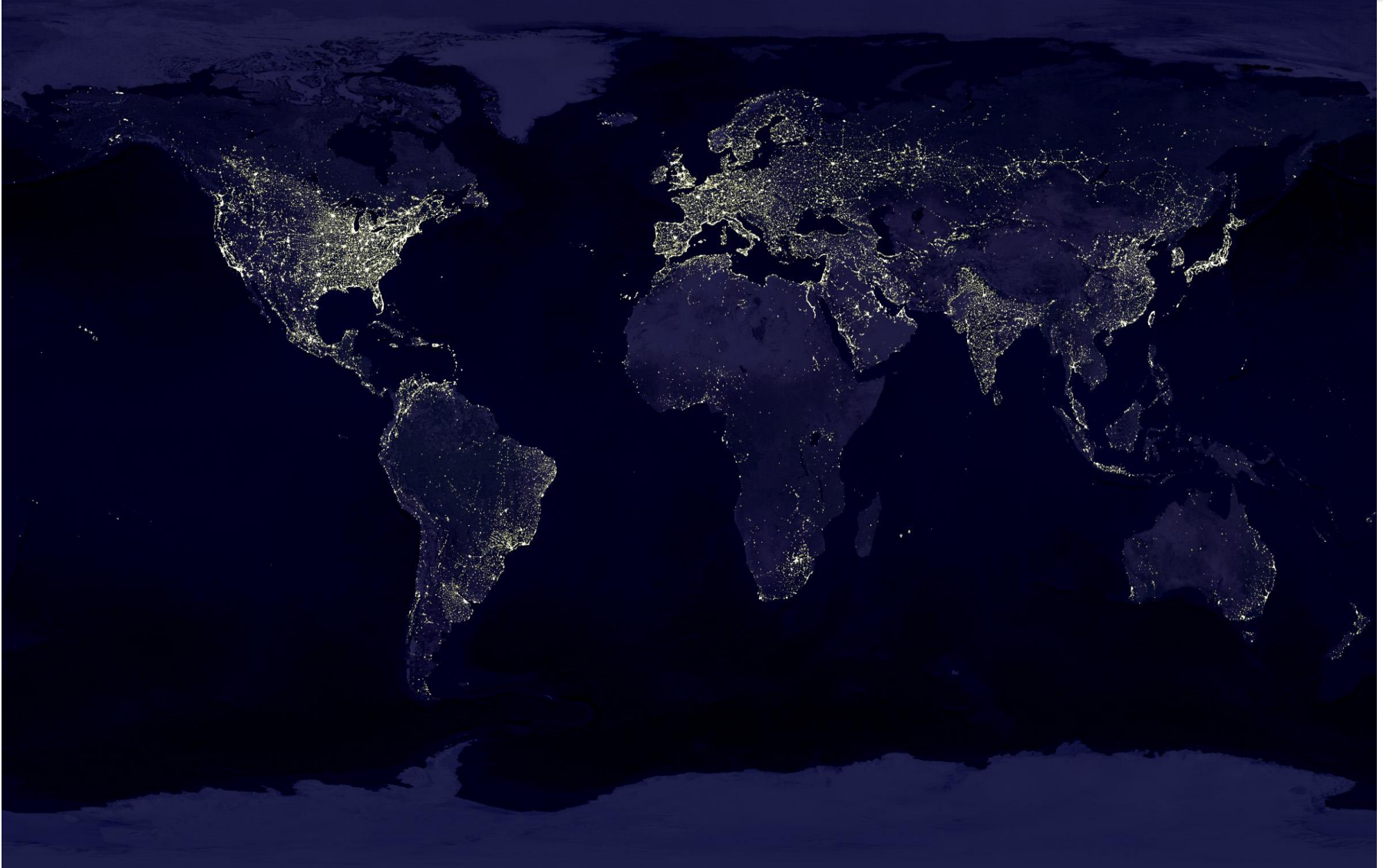
Economic cost of power outages in select countries



Source: Derived from Eberhard and others (2009).

Why Reform.... Cont'd

Geography of Economic Activity



Why Reform.... Cont'd



Summary of The Condition Of NESI

- High Tech and Non-Tech Losses (Estimated at 45-50%)
- Low Generation, Distribution and Transmission capacity
- Large No. of Employees (over 47,000 in the industry)
- Poor Maintenance Culture
- Frequent Power Outages
- Lack of Commercial Orientation
- Not Commercially viable
- No Audited Financial Statements



Objectives OF FGN Power Reform

To reduce the cost of doing business in Nigeria so as to attract new investment through provision of quality and dependable power supply to the economy for industrial, commercial and socio-domestic activities;

- 
- ✓ To improve the efficiency of the distribution, generation and transmission network which is in a comatose state.
 - ✓ To provide our people with basic and affordable infrastructure to enable them create employment for themselves.
 - ✓ Creation of an electricity market that is private sector driven.
 - ✓ Attract massive investment across the value chain of NESI
- 

Implementing the Reforms

- The Electric Power Reform Implementation Committee (EPIC) was inaugurated by NCP 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 National Assembly passed the Electric Power Sector Reform Act (EPSRA). The Act outlined the framework of the reform as follows:
 - Unbundled the state owned power entity (NEPA) into generation, transmission and distribution segments



Implementing The Reforms

- ✓ Provided for the transfer of assets , liabilities and staff of NEPA to PHCN and then to successor generation, transmission and distribution companies
- ✓ Created a competitive market for electricity services in Nigeria
- ✓ Set up an independent regulator Nigerian Electricity Regulatory Commission (NERC).
- ✓ In November 2005, 18 New successor Companies comprising of 6 generation companies, 1 transmission company and 11 distribution companies were incorporated;
- ✓ On 1st July 2006, the assets, liabilities and staff of PHCN were transferred to the successor companies, thereby granting the latter greater operational autonomy.



Implementing the Reforms

- ✓ 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) ;
- ✓ The Market Rules to guide the operations in the electricity industry were approved in 2009.
 - ✓ In August 2012, Transmission Company of Nigeria (TCN Plc was handed over to Manitoba Hydro International (MHI) of Canada under a 3 to 5 year Management Contract arrangement;





DESIGN OF THE NIGERIAN ELECTRICITY MARKET

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 characterized by higher demand than supply.

➤ **TRANSITIONAL STAGE (Where we are 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 will be 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).





DESIGN OF THE NIGERIAN ELECTRICITY MARKET

➤ MEDIUM TERM STAGE

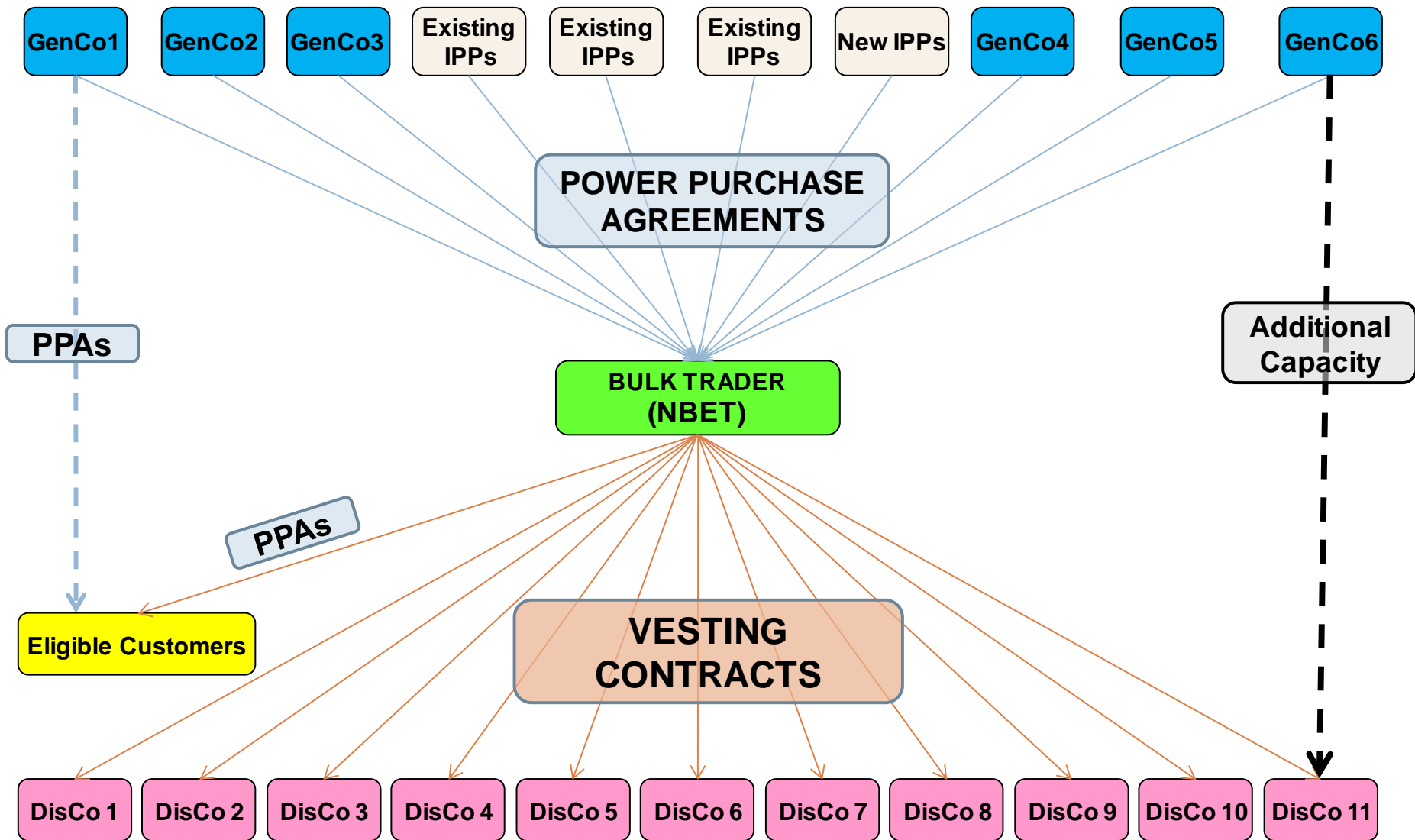
- ✓ There is competition to enter in the market.
- ✓ There is competition in the market to supply the demand.
- ✓ Contracts can be negotiated freely and there can be "financial contracts".
- ✓ There is a centralised Merit Order Dispatch by the System Operator, where Generators must submit the dispatch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



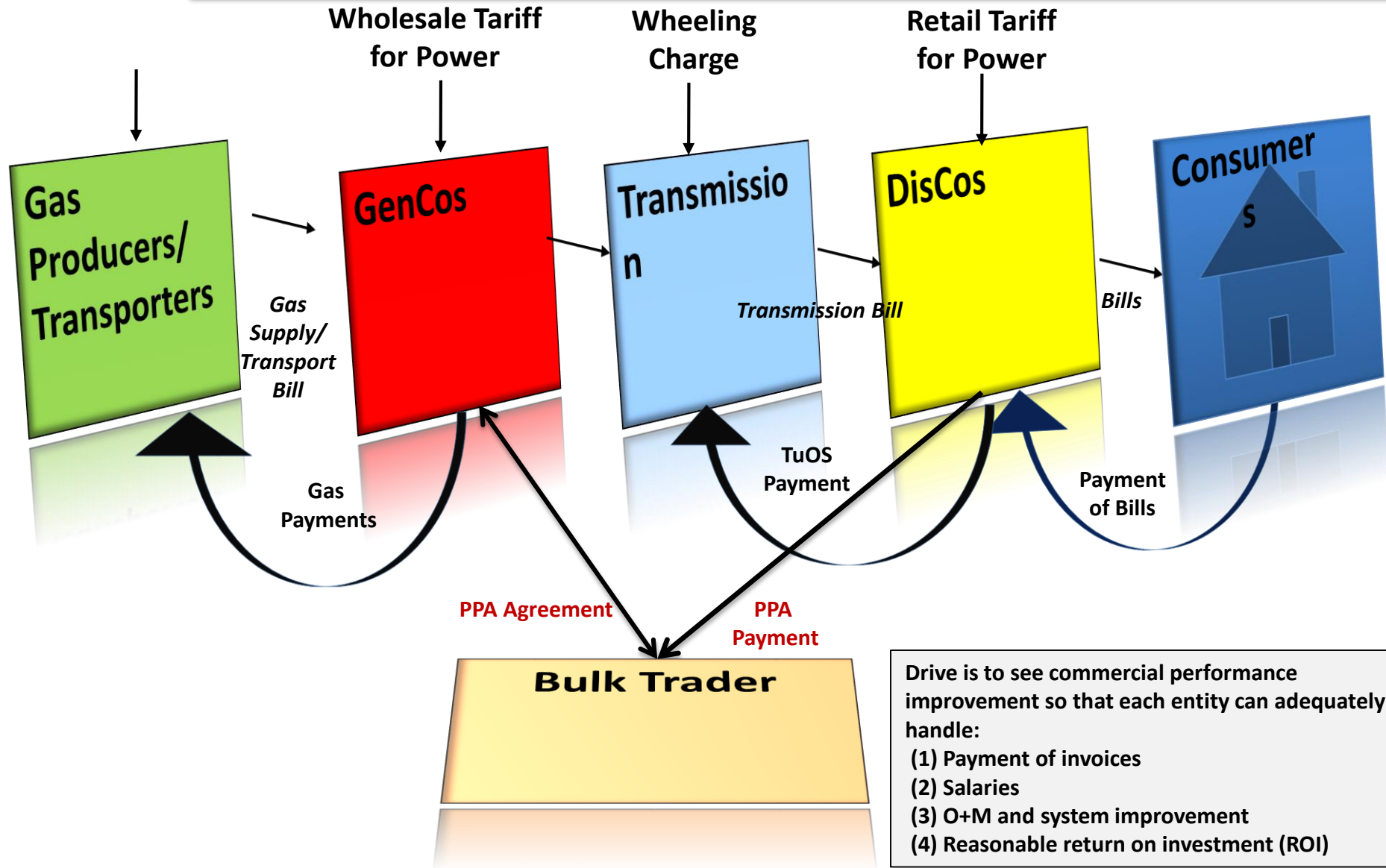
➤ LONG TERM STAGE

Similar to the medium term stage but characterized by more competition and greater freedom by eligible consumers to choose their suppliers

Transitional Market Trading Arrangement



Value Chain in Power Production and Delivery



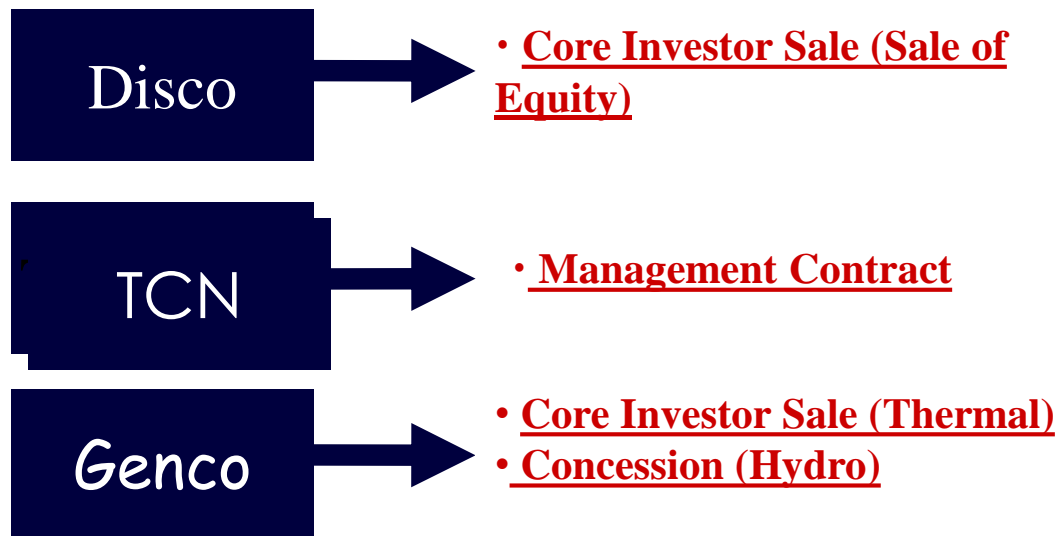
Drive is to see commercial performance improvement so that each entity can adequately handle:

- (1) Payment of invoices
- (2) Salaries
- (3) O+M and system improvement
- (4) Reasonable return on investment (ROI)



Privatization Strategy

- Approved privatisation strategy for the Successor Companies and TCN:
 - ✓ Core investor sale
 - ✓ Asset sale (Non Core Assets)
 - ✓ Management Contract
 - ✓ Concessions



Privatization Strategy Cont'd...

-(Discos)

- ✓ To emerge as a core investor, bidders were required to submit a proposal aimed at reducing Aggregate Technical, Commercial and Collection (ATC&C) losses over a five year period ;
- ✓ The level of losses that a bidder proposes to reduce will be incorporated in 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;
- ✓ The selection criteria seeks to appoint an operator with the best technical, financial and managerial qualification for reducing ATC&C losses



Privatisation Strategy Cont'd....

- Gencos (Hydro)

Generation

- 2 Hydro Gencos were Concessioned

Hydro stations

Kainji HydroElectric Plc (Comprising Kainji & Jebba Plants)

- first hydro power station, established on the River Niger
- total installed capacity, 1344 MW
- Current capacity 317MW

Shiroro Hydro Electric Plc

- on the Shiroro Gorge on the River Kaduna
- newest Hydro Station established in 1990
- installed capacity, 600 MW
- Current Capacity. All units are available but plant is down due to Low water level



Privatisation Strategy Cont'd...

- Gencos (Thermal)

Generation

- 4 Thermal Generation Plants were sold through investors sale by competitive tendering

Geregu Power PLC

- Kogi State
- installed capacity, 414 MW
- on stream Available Capacity 414 MW
- c 2007

Ughelli

- Delta area
- Built between 1966 and 1975
- installed capacity, 900 MW
- Available capacity 150 MW

Sapele Power Plc

- Delta State
- Built 1978
- Installed Capacity 1020 MW
- Available capacity 100 MW

Afam Power Plc

Comprising of Afam I-V

- Rivers State
- Built 1976
- Installed Capacity 776 MW
- Available capacity 90 MW



Privatisation Strategy Cont'd...

- Gencos (Thermal)

Generation

- 3 Thermal Generation Plants were sold through Core investor sale by direct negotiation

Egbin Power Plc

- Lagos State
- Built in 1985
- installed capacity, 1320MW
- Available Capacity 1100

Omotosho Power Plc

- Ondo State
- Built in 2007
- installed capacity, 335 MW
- Available capacity 307 MW

Olorunsogo Power Plc

- Ogun State
- Built 2007
- Installed Capacity 335 MW
- Available capacity 307 MW



Handover to Investors

- ✓ On November 1st 2013, all the eleven distribution companies except Kaduna distribution company was handed over to the private sector;
- ✓ Also on November 1st 2013 five generation companies were handed over to the private sector;



Resolution of labor Issues

- ✓ A major encumbrance that could have stalled the privatization programme;
- ✓ After a protracted negotiation with the Unions for 14 Months an agreement was reached on December 12 2012 with the Unions and FGN; and
- ✓ The agreement has largely been implemented as over 98% of the 47,913 Workers of PHCN have been paid their severance, pensions and gratuity.



Resolution of labor Issues



ACTIVE STAFF	
EXPECTED BONAFIDE STAFF	47,913
VALIDATED STAFF	46,326
STAFF'S PAYMENT SENT TO OAGF AND CASH BACKED	45,760
EXITED STAFF	365
OUTSTANDING PAYMENT OUT OF VALIDATED STAFF	201
YET TO BE VALIDATED	865
UNIDENTIFIED CASES	722
	47,913
AMOUNT SENT TO OAGF FOR 45,760 PHCN STAFF(SEVERANCE, RSA AND 2% UNION DUES)	N371,573,089,588.97

Resolution of labor Issues



RETIREES/NOKs		
PHCN SUBMISSION		4,146
	VERIFIED RETIREES/NOKs	3,233
	DIDN'T SHOW UP FOR VERIFICATION	913
	NO OF STAFF'S PAYMENT SENT TO OAGF AND CASH BACKED	1,803
	UNDERGOING AUDITING	358
	UNDERGOING COMPUTATION	391
	UNDERGOING PROCESSING	681
		3,233
	AMOUNT SENT TO OAGF FOR 1,803 PHCN RETIREES/NOKs BENEFITS	N10,488,667,431.27
	TOTAL AMOUNT SENT TO OAGF FOR PHCN STAFF TERMINAL/RETIREMENT BENEFITS	N382,061,757,020.24

The New Investors Commitments

Disco Purchasers

- 4power consortium – *Port-Harcourt*
- Aura Energy Ltd – *Jos*
- Integrated Energy Dist. & Mkt. – *Ibadan & Yola*
- Interstate Electrics – *Enugu*
- KANN Consortium Utility Company Ltd – *Abuja*
- KEPCO/NEDC Consortium – *Ikeja*
- Sahelian Power SPV Ltd – *Kano*
- VIGEO Holdings, - *Benin*
- West Power and Gas - *Eko,*


Genco

Purchasers/Concessionaires

- Transcorp - *Ughelli*
- Amperion - *Geregu*
- CMEC/EUAFRIC – *Sapele*
- Mainstream Energy Solutions Ltd - *Kainji*
- North-South Power Company Ltd – *Shiroro*



Investor Comittments



Distribution Company	Capex (\$)				
	2013	2014	2015	2016	2017
Abuja	\$36,606,000	\$36,606,000	\$36,606,000	\$36,606,000	\$36,606,000
Benin	\$24,314,000	\$24,314,000	\$24,314,000	\$24,314,000	\$24,314,000
Enugu	\$27,230,000	\$27,230,000	\$27,230,000	\$27,230,000	\$27,230,000
Ibadan	\$43,865,000	\$43,865,000	\$43,865,000	\$43,865,000	\$43,865,000
Jos	\$22,755,000	\$22,755,000	\$22,755,000	\$22,755,000	\$22,755,000
Kaduna	\$29,960,000	\$29,960,000	\$29,960,000	\$29,960,000	\$29,960,000
Kano	\$30,379,000	\$30,379,000	\$30,379,000	\$30,379,000	\$30,379,000
Eko	\$45,170,000	\$45,170,000	\$45,170,000	\$45,170,000	\$45,170,000
Ikeja	\$58,737,000	\$58,737,000	\$58,737,000	\$58,737,000	\$58,737,000
Port Harcourt	\$25,514,000	\$25,514,000	\$25,514,000	\$25,514,000	\$25,514,000
Yola	\$13,133,000	\$13,133,000	\$13,133,000	\$13,133,000	\$13,133,000
Total	\$357,663,000	\$357,663,000	\$357,663,000	\$357,663,000	\$357,663,000

- **5 Year total Capex for Distribution Companies is almost \$1.8 billion and cost reflective tariff reflected next slide**

Investor Commitments

The investment to be made by the Discos must cover the commitments they have all made in the following areas:

- Metering (About 6 million meters);
- Health, Safety and Environmental practices;
- Reduction in number of customer interruptions i.e. due to network faults;
- New customer connections and network expansion;
- Improving customer services and complaints handling procedures; and



Benefits of Privatization of Power

- ✓ Fundamental engine for job creation leading to significant reduction in youth restiveness
- ✓ Power sustainability, reliability and stability
- ✓ Lowers production cost and makes Nigeria's manufacturing sector more competitive internationally
- ✓ Rapid growth in power while at the same time significant reduction in FGN's expenditure
- ✓ Achieving telecoms' position: **Taking power availability for granted**
- ✓ Empowering other economic and social service activities such as tele-centres, healthcare delivery systems, educational institutions
- ✓ Empowering SMEs: welders, hair-dressers/barbers, printing presses, tailors, small-scale food processors, etc.



Challenges

• Monitoring Investors' Business Plans

- One of the biggest challenges in any privatisation is ensuring that necessary investments are made by the private sector;
- Many countries experience disappointment when private sector partners fail to make investments as promised, whether for legitimate reasons or due to excuses;
- The power sector will require several billion dollars over the next five years and this money is needed in order to achieve the goals of the power reform program;
- We have made bidders contractually required to bring in this investment and BPE and the FGN will be following up on this continuously;
- Consumers should be vigilant to ensure that contractual obligations are enforced by the Regulator and other govt. agencies.



Challenges

- **Transmission**

- Transmission is seen by some private sector participants as the “weak link” between Generation and Distribution;
- While we have engaged a reputable management contractor , we still need to ensure this management contractor is fully empowered to do its work;
- We also will need to be sure that the transmission sector is adequately supported by the government through funding so that it can make the investments to be able to wheel the increased generation capacity.



Challenges

- **Skilled Manpower**

- There is paucity of skilled manpower in the power sector;
- Purchasers are inheriting an aged and disoriented work force that is virtually used to doing what they like;
- New owners need a clear strategy of managing the movement from state run to a privately managed;
- We need to work closely with the purchasers and the National training power institute (NAPTIN) to assist in bridging the manpower requirements of the sector.



Challenges

- **Gas**

- The large portion of electricity generated in Nigeria is done through gas-fired plants;
- Nigeria is lucky to be blessed with one of the largest reserves of natural gas in the world;
- Still, necessary investments are needed to be made to ensure that we can access this gas and produce power;
- As at today, we do not have the capacity to supply enough gas to support the envisaged increased capacity and
- This will require strong incentives for the private sector to invest as well as support from the government.



Challenges

• Patience

- Changes will not be immediate;
- Investments in the power sector will take time in order to achieve results;
- Construction of new generation capacity will take two to five years to achieve most of the results envisaged;
- Expectations will need to be managed for the public to understand that a power sector cannot be built overnight and that this country is recovering from decades of underinvestment and corresponding crumbling infrastructure.



Challenges


• Rapidly Changing Market/ Unpredictability

- Over the next few years, the market will be moving through a period of rapid transformation;
- Capacity will increase and large investments being made in the sector will lead to some degree of unpredictability both for the regulator, the government, the private sector and the public;
- The market will adjust to working under a new commercial framework based on bankable contracts that will require adjustments and upgrading of information available, systems and technologies in place; and
- All participants will need to show flexibility and adaptability to this situation of flux.





Conclusion

- ✓ The ambition of the FGN is to meet the vision 20: 2020 target of 20,000MW 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 and the NIPP projects is one step towards the attainment of the above objective.
 - ✓ The baton to salvage Nigeria from darkness to light is now in the hands of the private sector.
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Thank You