

EmPower Nigeria

Improving Nigeria's electricity supply industry through public education

MacArthur Foundation

Supported by John D. and Catherine T. MacArthur Foundation

A Weekly Publication of

Nextier

Advisory · Investment · Services

Vol. 1 Issue 12
Sep. 27, 2017

Nextier Power is a consulting firm that provides policy advisory, investment advisory, and support services to the electricity supply industry. The firm aims to use this weekly publication to educate Nigerians on the intricacies of the Nigeria electricity supply industry on the assumption that a more informed public would advocate for the right policies and programmes which, in turn, would lead to a robust market that delivers the electricity needs of Nigerians. This column will cover everything from the basics of the industry to the more intricate, sometimes, complex policies and programmes.

Power Sector Recovery Programme to the Rescue

Introduction

By November 2017, the power sector would be privatised for four years. Yet, different market participants are still in the business of casting blame. The expected outcomes of the privatisation are far from materialising. With the government being both an accuser and an accused for the mishaps in the sector, every component of the value chain has failed to perform to par in these four years. The lurking question remains whether the handing over of the sector to private owners was the best decision by government. The private companies are still not operating in the best interest of the electricity consumers, binding contracts (though signed) are not being effected across the value chain, the tariff and market deficit continues to grow while consumer behaviour is also contributing to the instability with electricity theft and infrastructure vandalism.

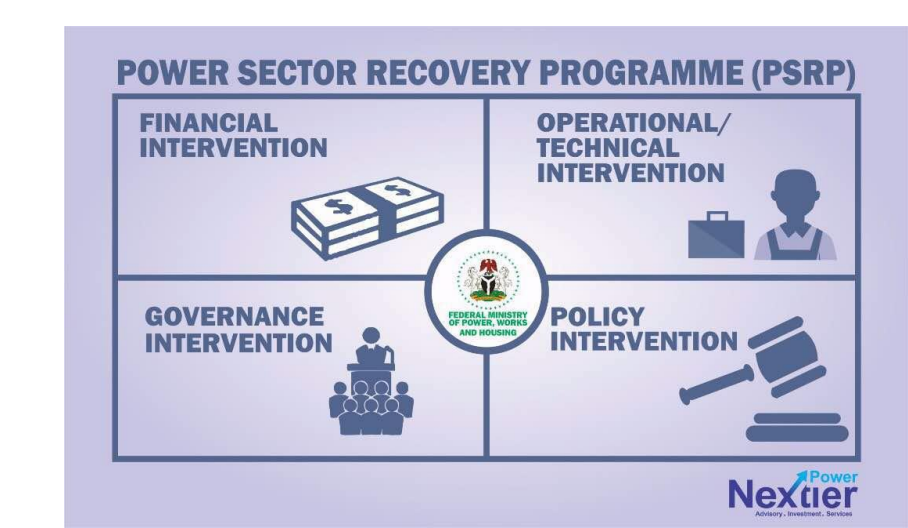
Therefore, it is obvious that based on industry status quo, stable, constant and reliable electricity remains elusive.. With the deteriorating electricity market, the government is committed to “resetting” the sector with carefully crafting policy, financial and commercial interventions. Without this rescue plan, the sector will remain at risk without any measurable progress since privatization, while we continue to bear the frustrating experience of blackouts and noisy generators as consumers, more devastating is the negative economic impact to Nigeria’s development.

What is PSRP

The Power Sector Recovery Programme (PSRP) will be one of the Federal Government’s biggest, ambitious yet achievable intervention in the sector to help resolve the rising crisis. Nigeria being a developing country is characterised by the unavailability of data for accurate and more informed decision making. This means that during the privatisation process, the interested buyers did not have full information about the businesses they were purchasing. Some of the owners say that they bought a “black box” and only got to discover the true assets and liabilities of the company after the handover in November 2013. This has been one of their defences when confronted for their non-performance as agreed by their different performance agreements.

Acknowledging the issues and inefficiencies – such as the accumulating debts in the sector, the FGN has decided to take responsibility for these shortcomings which are the outcomes of the privatisation process not being thoroughly carried out. Upon this premise the PSRP was established.

The PSRP is intended to be a five-year program that will reset the power sector. The reset will give the sector a chance to start on a clean slate by restoring financial viability in the sector. It is expected that



through the program, all outstanding debts owed to every participant across the value chain will be paid up by the government. Also, more than the financial viability, the PSRP aims to improve the amount of power sent out to electricity consumers. More importantly, the PSRP intends to make the industry transparent to ensure that the electricity market can develop further and faster.

This carefully crafted initiative will be rolled via a series of government policies, operational capacity improvement, financial intervention plans etc. The initial plan was approved by the Federal Executive Council (FEC) in March 2017.

Why the PSRP

On a macroeconomic level, there is little evidence of economic growth and development without available power supply in any country and Nigeria is no exception. The current fate of the sector has in many ways hindered the overall economic development of the country. Electricity supply to stimulate economic activities is almost non-existent. Industries are being crippled daily, jobs are being lost, the cost of doing business is on the increase, and the general standard of living of the people is on the decline. All these consequences simply because the power sector has failed to operate as expected, despite the privatisation of the sector.

Prior to the PSRP, the Roadmap for Power Sector Reform being implemented by the previous administration was the guiding document for the ongoing reforms in the power sector. Though comprehensive, the Roadmap did not envisage a lot of the current events that hinders the development of the sector and caused the liquidity crisis (as discussed last week).

The FGN Economic Recovery and Growth Plan (ERGP) has given priority to the sector because it recognises that a recovery plan without such priority placed on the power sector will limit the overall ambition to revive the economy. Currently, the Transmission Company of Nigeria (TCN) only sends out less than 3,500MW daily to the whole country, even though the installed generating capacity is approximately 10,000MW. The ERGP has

an ambition to increase power distribution to 10,000MW by 2020. To achieve this goal, there would also be focus on addressing the issues of vandalism, gas supply limitations, and the completion of gas infrastructure lines for power. These gaps identified justifies the importance of the PSRP which broadly encapsulates and proposes solutions to both financial and technical constraints

Components of the PSRP

The PSRP has four separate intervention groups that make up entire programme:

Financial Intervention – which aims to totally fund the market from historically and future deficits. This intervention will be accomplished in the following areas:

- Commit to fund future market deficits that from 2017 to 2021 and draft a plan to financially support the market until tariffs have reached a cost reflective level
- Eliminate historical revenue deficits
- Automate and eliminate MDA debts
- Restore cost reflective tariffs over the next five years
- Payment Assurance facility for the CBN N701.9 billion facility
- \$2.5 billion loan from the World Bank for the programme support.

Operational and technical intervention aims to rid the sector of the technical challenges in the following area:

- Baseline power generation, transmission and distribution to validate that a minimum of 4,000MWH/H is available daily from 2018, which will stabilize the grid
- Ensure Improved DisCo performance using various methods such as: improve collection (meters), recapitalization, implementation of business continuity plan and others

Government Intervention aims to right size the sector by having government play the big brother role by implementing the following:

- Restore proper governance by appointing qualified members of

the public to board of agencies and DisCos

- Improve sector transparency
- Declaration of the Transitional Electricity Market which will make contracts effective
- Clear communication of the PSRP
- Manage and implement a monitoring team that will monitor and coordinate the entire program. The team will report to the Economic Management Team which is chaired by the Vice President

Policy Intervention – intends to address the current policy gaps. This intervention will address these gaps in the following areas:

- Improve fiscal and monetary policies
- Increase electricity access by exploring off-grid technologies such as mini, micro-grids, and other technologies.

Expected outcomes

Following the full-blown consultations with different stakeholders, the FGN expects that key players support the successful implementation of the PSRP. The PSRP is envisaged to be the last financial intervention in the power sector. The PSRP will improve governance arrangements to the sector which is key to resetting the sector for future development of the sector.

Conclusion

The Power Sector Recovery Programme outlines strategic set of goals that should help the Nigerian Electricity Supply Industry recover in the medium term. These strategic measures would ensure financial viability and attract private investments into the sector as a result of a clear regulatory environment and other factors in the programme. However, some other measures such as customer enumeration, strengthening of collection by the distribution companies and energy efficiency should be incorporated in the programme. The PSRP should also outline a detailed implementation plan and how it intends to gain support and buy-in from Nigerians. Nonetheless, the Programme will have a positive impact on the Nigeria electricity supply industry if diligently implemented.

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