

The Power Roadmap, Privatization and the Nigerian Economy

Duruji, Moses Metumara

Covenant University. Ota, Nigeria.

1. States of the Issue

Nigeria has been described as a country with potentials of greatness but for over five decades of independence, that potential has remained latent (Sidhu, 2015). The over 170m population, rich natural and agricultural resources, makes the country is a huge market for investors. However, not much investment is attracted into the country due to the poor energy and power situation in the country. The infrastructural deficit in the country particularly in the power sector, worsens the business condition in Nigeria making productive activities in the country very costly. Infact the major business devote huge sums of their production cost on generating power, thus forcing a good number of the multinational organisations to relocate outside of Nigeria to friendly business environments (DailyTrust, 2009). Given this backdrop, the administration of Goodluck Jonathan has to introduce Roadmap for Power Sector Reform. Key aspect of that reform was the privatisation of the huge power infrastructure hitherto manged by the state, so as to achieve the goal of steady production and distribution of clean and efficient electricity for homes and businesses in Nigeria (Nigerian Electricity Hub, 2016). The launching of the Roadmap for Power Sector Reform was appraised as capable of bringing solution to the challenges of the epileptic and ineffiecient energy system in Nigeria(Usman & Abbasoglu,2016). But many years have passed since the Roadmap for Power Sector Reform was rolled out including privatisation of the generation and distribution components of the power sector but there is no difference from when the enterprise was under the government.

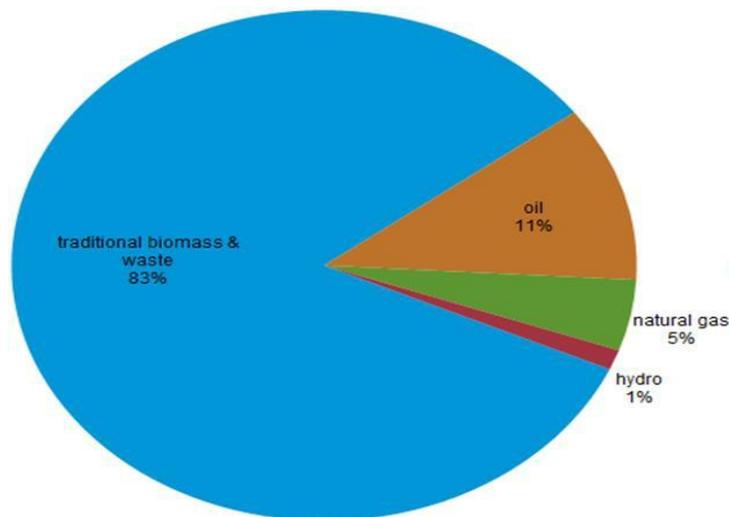


Figure 1The primary Energy Consumption in Nigeria,
Source Zubairu&Abbasoglu,2014

2. Causes and Analysis

Power is vital for any economy and in Nigeria, the history of electricity is as old as the country itself. First generating plant in the country was established in 1898 with installed capacity of 60KW in Lagos . By 1950, the Electricity Corporation of Nigeria (ECN) was created to handle issues of electrification in the country.(Nigeria Electricity Hub, 2016). The National Electric Power Authority (NEPA) was established in 1972 when ECN and the Niger Dam Authority (NDA) was merged to enable a more effective management of the power sector in the country.

By 1988, the desire to improve the acute power shortages led to the idea of partial commercialization aimed at improving service delivery. All these incremental reforms yielded very little because as at 1998 when the country transitioned to democracy, the total generation of the power plants were over 6,000MW which is below 60% of their total installed capacity (Nkeruka, 2011). This gross under performance has largely been attributed partly to lack of maintenance and underfunding by the Government (Emoren, 2011 et al; Aliyu et al, 2013). The liberalisation of the sector by the government to attract private capital by the government of Olusegun Obasanjo failed to attract investment in the sector until the government thought about unbundling the gigantic NEPA.

Table 1. Government owned power plants in Nigeria [9]

Power Plant	Installed capacity (MW)
Kainji	760
Shiroro	600
Jebba	540
Egbin	1,320
Sapele	1,020
Afam (IV – V)	726
Ughelli	900
Omotosho I	304
Olorunsogo I	304
Calabar	6.6
Orji river	10
TOTAL	6,490.60

Source: Zubairu & Abbasoglu, 2014

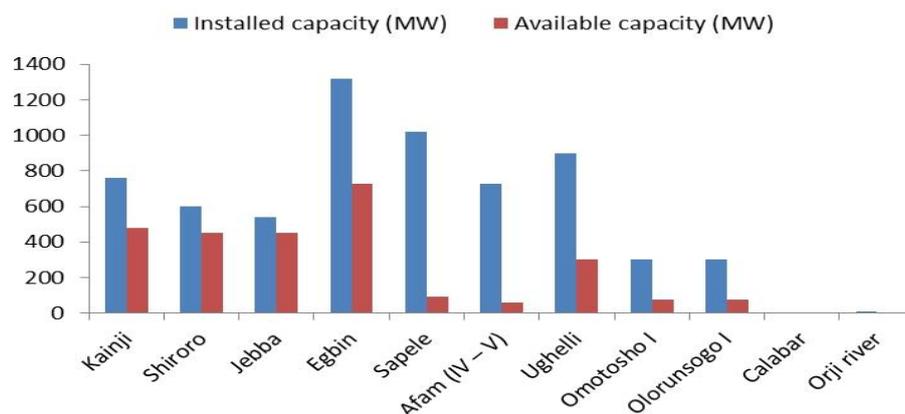


Figure 2: Power Generation in Nigeria, Source Zubairu&Abbasoglu,2014

The passage of the Electric Power Sector Reform Act (EPSRA) in 2005 led to the establishment of the Power Holding Company of Nigeria (PHCN), the initial company, and then its unbundling into 18 companies called “successor companies”(Omofonan,2017). The action was taken so as to unitise the PHCN assets in order to sell them to more efficient private investors who the government believed would recover and optimise production (Nigerian Electricity Hub, 2016). The privatisation was eventually carried out in 2013 when the government auctioned at least 51% ownership of four thermal plants, two hydropower plants and 11 distribution companies (Omofoma, 2017). the process attracted 330 letters of interest, but only 220 bidders were selected and at the end 15 enterprises won contracts in bids that totally amounted to over US\$2.5bn (Nigerian Electricity Hub, 2016).

The privatisation transaction involved the following stages:

1. Expression of Interest (EOI) stage – the BPE received 331 proposals from investors and pre-qualified 207 investor groups;
2. Request for Proposal (RfP) stage;
3. Bid Opening Stage – Technical and Financial;
4. Negotiations with Preferred Bidders;
5. Execution of Share Sale Agreement, payment and handover.

Notwithstanding the accolades the privatisation exercise received at the time it was carried out, it turned pipe dream soon after the process was completed four years down the line (Agbakwuru, 2015).

The explanation as to the failure of privatisation component of the Power Roadmap some argue started even in the flawed process of the exercise which was monitored by International organisations such as the World Bank and described as transparent (Omofoma, 2017). some of the flaws include the hostility of Electricity Union workers who prevented physical inspection of assets by bidders as part of the process initiated by the BPE which opened data rooms (virtual and physical) for this purpose(Omofoma, 2017).Others have accused the administration that carried the exercise of selling the companies to cronies of the past administration (Agbakwuru, 2015)..

According to Omofoman (2017), the privatisation process was underpinned by very optimistic and unrealistic assumptions and promises by Nigerian Electricity Regulatory Commission (NERC), the Bureau of Public Enterprises (BPE) and policy makers. There were also several promises made to investors during the bid stage to incentivise them. Such unrealistic assumptions and incentives included:

- Very ambitious MYTO assumptions (technical and non-technical losses, available generation capacity, wholesale generation costs, understated distribution costs, etc.);
- MYTO tariffs assumed to be sufficient to raise enough revenues from DISCOs to fund the value chain;
- Well capitalised NBET (Bulk Trader) able to meet its PPA obligations to GENCOs;
- N100 billion transitional subsidy to DISCOs to prevent rate shock;
- Securitisation or credit enhancement/support arrangements in the early stages of the transition to build investor confidence in the sector;
- Financial viability of the DISCOs from day one;
- A stable transmission grid;
- A cocktail of incentives to further encourage national and international investors which never materialised.

It has been argued that the overly optimistic and quite unrealistic assumptions by all stakeholders was an indication that there was very little knowledge of a transitional power sector then. A combination of government failure to follow through on some of these

assumptions and incentives, as well as investor exuberance, not patriotism, has now created a dangerous cocktail in the power sector.

3. Expectation and Implication

Outrage over the privatisation of the power sector became louder shortly after the take over of the successor companies by the preferred bidders when the government gave them a bailout following avalanche of complains particularly to the DisCos (Sanyaolu,2017). Another area of controversy is over the issue of tariff which is still regulated by the government as well as provision of pre-paid metres to the consumers of electricity in Nigeria(Lagos Television, 2017). The most worrisome to the public of the privatisation of power sector in Nigeria is the continued epileptic supply of power indicating that the take over of the companies has brought no major difference(Abiiodun, 2016). given this backdrop, some people are calling on the government to reverse the privatisation on the pretext that the exercise was not after all transparent(Mohammed,2015).

4. Conclusion

The economic doldrum besetting Nigeria since the country got independence on October 1st 1960 and the slow pace of industrialisation is due to infrastructural deficit. One key sector dragging down development is power supply which for a long time has been epileptic and practically non-existent. After so many attempts to get it right as a government managed enterprise, the government introduced a bold document it called Roadmap to Power Sector Reforms of which privatisation of the entity was a major component. That effort was hailed as panacea to Nigeria's challenges in the power sector and by extension the industrial take off of the country but alas it seems the enthusiasm was baloomey. Three years down the line, the power situation has made very little progress and it seems the people in power are bereft of possible solution. Maybe the current discourse on restructuring of the Nigeria federation which would enthrone true and competitive federalism. Time will definitely tell.

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