

NIGERIA'S POWER CRISIS

■ ■ ■ LIGHT AT THE END OF THE TUNNEL



R E V E R S I N G D E C A D E S O F G O V E R N M E N T M O N O P O L Y A N D S T A G N A T I O N

Nigeria's power sector had operated for several decades as a state monopoly until 2005. Only the Federal Government could own electricity generation, transmission and distribution facilities, with all the profound problems inherent in public monopoly. The over-centralization made it impossible for electricity supply to keep pace with the growth in population and economic activities. No new plants were built from 1989 to 1999 when Nigeria returned to democratic rule. There was severe underinvestment, equipment were poorly maintained and low salaries could not attract or retain the best talents. Today, Nigeria has the biggest gap in the world between electricity demand and supply, providing its population of 150 million with roughly 3,800 megawatts of electricity. In contrast, South Africa generates more than 40, 000 megawatts for a population of 47 million, while Brazil generates 100,000 megawatts for its 201 million citizens. Nigeria's production of electric power stood at a mere 1, 850 megawatts in May 1999. The revenues generated by very low electricity tariffs could not even cover the cost of producing and supplying power. Nigerians spent enormous sums on self-generated power, making the country's cost of electricity consumption one of the highest in the world.

The Route to Reform: The Electric Power Sector Reform (EPSR) Act of 2005

The government of former President Olusegun Obasanjo worked with the National Assembly to enact the Electric Power Sector Reform (EPSR) Act of 2005. This legislation ended government monopoly and created institutions to build a power sector in which the private sector has become a key partner in development. On the basis of the new law, the National Electric Power Authority (NEPA) was transformed into a transitional company named the Power Holding Company of Nigeria (PHCN), which was unbundled into six generation companies, one transmission firm and eleven distribution companies, as a first step towards partial divestment of government assets. The end of government monopoly made the emergence of independent power generation plants operated by Agip, Shell, AES, etc possible. The Independent Power Producers (IPPs) generate 1, 100 megawatts out of a little over 4, 000 megawatts currently produced in the country.

The Obasanjo administration also initiated the National Integrated Power Projects (NIPP), which consists of power plants of 2, 000 megawatts capacity, the expansion of 330 KV and 132 KV transmission networks and the expansion of the distribution networks through the construction of sub-stations and distribution lines. The NIPP became a vehicle to channel funds from the excess crude oil account owned by the three tiers of government into Nigeria's power sector. Far more funds have consequently been invested in the power sector than the Federal Government alone could have been able to provide from its own share of resources from the Federation Account.

President Goodluck Jonathan's Road Map to Fast Track Power Sector Reform and Improve Service Delivery

President Goodluck Jonathan, no sooner than he came into office last May, conducted a review of the Power Sector Reform and the National Integrated Power Projects (NIPP). Dr. Jonathan consequently launched the Road Map for Power Sector Reform on August 26, 2010, to fast-track the implementation of the EPSR Act of 2005. The Road Map seeks, among other things, the strengthening of policies and institutions to attain the goals of the power sector reform, especially attracting private sector investment and efficient management and achieving effective regulation of the sector. For the first time, the country has a comprehensive and realistic plan for resolving Nigeria's electric power crisis, identifying requirements to achieve stable power supply in the entire value chain from gas to generation, to transmission and distribution. The Road Map has set a definitive plan with timelines for medium and long terms goals. Nigeria's telecommunications sector in which telephone lines rose from under 400, 000 to over 80 million in less than 10 years is a testimony of the potential of reform to replace scarcity with abundance.

The power sector has, under President Jonathan, enjoyed unprecedented government attention. The administration, as soon as it came into being, set up the **Presidential Action Committee on Power (PACP)** which meets every Tuesday, with the President himself chairing and the Vice President serving as Alternate Chair. The PACP sets policy and grants expedited approvals for critical decisions for the implementation of the power sector reform. The Jonathan administration also set up, shortly after it was inaugurated, the **Presidential Task Force on Power (PTFP)** as the implementation arm of the PACP; the PTFP supervises the day-to-day implementation of steps to restore confidence in and reform the power sector. Considerable and sustainable successes have been recorded on both the reform and service delivery fronts.

Indices of Progress in Creating a Private-Sector-Led Power Industry

- New, experienced and credible Commissioners of the Nigerian Electricity Regulatory Commission (NERC)** have been sworn in and have commenced work on a Multi-Year Tariff Order (MYTO), which will be attractive to investors, ensure the commercial viability of the market and, of course, be fair to consumers, especially the urban poor and rural dwellers.
- The Nigerian Bulk Electricity Trading Plc (NBET)** has since last July been incorporated. It will purchase electricity generated by power producers on behalf of the distribution companies until they become mature and attain credit worthiness. Investors will thus be attracted to funding the development of generation plants confident that they will get paid for the power they sell to the distribution companies.
- Independent Power Producers** are being contracted by the Bulk Trader to generate an additional 6, 000 megawatts by 2014, almost 3, 000 megawatts of which will be available by 2013.
- A World Bank Partial Risk Guarantee (through the Federal Ministry of Finance)** for the Bulk Trader to protect investments in generation plants against political and other risks and further boost investor confidence is being finalised.
- Investor confidence is growing.** For instance, as many as 331 companies across the globe have expressed interest in investing in the state-owned eleven distribution and six generation



■ President Goodluck Jonathan launching the Roadmap for Power Sector Reform in Lagos on August 26 2010

v. 6, 000 megawatts will be generated before the end of 2014 by IPPs like Dangote, Lafarge, Notore, SuperTex, Wemco, Geometric Power, Chevron, ExxonMobil, Total Fina, Hudson Power, AGIP, Negris, and Mabon Energy.

vi. **A superior management system of power supply is now in place.** As a result, system collapses are now a rarity. The nation has experienced only two system failures this year, a sharp contrast to the past when we experienced a system collapse three or four times every month.

vii. **Prevention of wild fluctuations in power supply:** supply has been stabilized at 4, 000 megawatts peak availability, the highest ever in our national history. A whopping 1,000 megawatts has been added to power supply since President Jonathan assumed office less than a year ago.

viii. **Installation of about 3, 000 distribution transformers** and associated power equipment and accessories nationwide.

ix. **Many Nigerians are enjoying more hours of power supply** because of the rehabilitation and recovery of capacity in existing generation plants.

x. **More households and businesses will benefit from the increased generation** and enjoy increased hours of electricity as deficiencies in the distribution and transmission networks are progressively eliminated through the refurbishment and upgrading of facilities. (Installing and repairing equipment has disrupted services in some communities; PHCN Management has been directed to explain the cause of the disruption to the public.)

xi. **The power sector will be expanded to drive GDP growth** so that Nigeria will generate more than the irreducible **40,000 megawatts** needed to make the nation become one of the world's twenty largest economies by 2020.

Conclusion

The Road Map for Power Sector Reform provides light at the end of a long dark tunnel. It is bringing five decades of underinvestment and inefficiency in Nigeria's power sector to an end. Ten billion dollars have to be invested annually in the power sector in the next decade for the industry to attain the capacity to fully meet demand. The Government has and will never be able to afford this level of funding of the sector; it can only be mobilized by successfully creating an enabling environment for private sector investment. As a result of the ongoing reform, Essar and other well-known names in the global power industry have signified their intention to invest \$22 billion in Nigeria's power sector. Currently, 70 per cent of power supply in Nigeria comes from state-owned power plants. In the next 3 to 4 years, 70 per cent of our power consumption will be generated by private companies. As our experience with telecommunications has demonstrated eloquently, private sector investment and effective government regulation is a proven solution to our infrastructure challenges. The power sector reform and the attainment of reliable supply of electricity will have a much greater impact on the inflow of foreign investment, the creation of employment and economic growth. It will take us much closer to the attainment of the economic miracle that Nigeria has the potential to become.

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