

Nigeria Power Sector Needs Accountability Before Privatisation



Rilwan Olanrewaju Babalola, PhD in Energy Economics from the University of Surrey in the United Kingdom, was appointed Nigeria's Minister of Power in December 2008. He was the Team Leader for Power Sector Reform at the Bureau for Public Enterprises, driving the transition from state monopoly of the sector, to an open, all inclusive electricity supply industry, during the tenure of President Olusegun Obasanjo. He worked briefly as Deputy General Manager at the Nigerian Electricity Regulatory Commission, after leaving the BPE. He thereafter, transferred to the Economic Advisory Team of President Umar Yar'adua, who succeeded Obasanjo in May 2007. Babalola's appointment as Minister was part of the outcome of Yar'adua's first shake up of his cabinet. TOYIN AKINOSHO met up with him in Lagos.

You talk a lot about the revert to autonomy for the Distribution and Generation companies that used to make up the state power utility, Power Holding Corporation of Nigeria (PHCN)...

The problem is not just about bringing more megawatts, bringing more transmission lines. It comes down to planning and management.

Look at it from a cycle perspective. First improve your infrastructure, pump money into it, but manage it such that it could at least pay for itself. How do you ensure sustainability if your eyes are not trained in Naira and Kobo? Again, from Abuja you cover the whole country but you can't see everything. Those guys are on the field, plant managers. You don't know what they are doing.

Take Eko and Ikeja Distribution companies. Between the two of them, they serve Lagos. Lagos is the only state that's served by two discos. Other states share discos. Everytime you lose a transformer in your area-a simple power transformer just a 65MVA-which the authority limit of the man in charge is actually below the cost of the transformer. Eko disco is broken up into a number of business units. The business manager in charge of the unit where the equipment is required had to do a requisition to the disco headquarters in Marina, who himself had to take it to Abuja. He now queues up. Now, most of our transformers are overloaded. Abuja CEO sends the requisition to ED in charge of transmission. It takes two weeks.

The irony is that the Eko Distribution man generates over a billion naira, but he can't spend 10 million naira. So I told Mr President, I said, Sir We have a big problem. The people on the field have to have autonomy to make operational decisions. They have to have control, the sort of control that you shouldn't abuse.

As of May 2007, Nigeria had advanced to a point where there were 414 Expressions of Interest for three of the seven electricity generation (thermal power stations) and 11 distribution companies. What's the status of the privatization now?

Even without the desire to sell, you have to run things efficiently. Let's say we need \$400 million to be put into distribution to make it work. Government has never been able to do that and since government has never been able to do that, you need people to bring in money, either as equity or as debt. But whoever is going to do that has to be assured of a certain quality of accountability in your system.

Is the autonomy an acceptable alternative to privatization?

The reform programme of the Bureau for Public Enterprises (BPE) was in two components.

"Incorporates autonomy

"Allows for privatization

You can restructure without privatization. But in our own case, even with all the resources, you wouldn't get enough funding to run the system.

So is the autonomy a step towards privatization?

Let's not get fixated on this issue. Even if you privatise, it will not work if you don't fix this issue. A government will choose to sell, but will still have to fix this issue. Improvement in the efficiency is not a public decision. It's part of good business practice.

South Africa and Egypt, the two economies that are bigger than Nigeria's generate power through publicly owned utilities, but our experiences haven't been the same. We've failed in the public sector...

Now you've mentioned Eskom of South Africa. It's a publicly owned entity. The business model is based on commercialization. They run a commercially viable business. The guys in Eskom actually generate money for the provinces. In our case, we've seen power as social service. Historically, the sector has never been able to generate what it could use to generate electricity.

What exactly today, is the status of the Nigerian Electricity Liability Management Company (NELMCo), the company that was supposed to take over the liabilities and obligations of the former PHCN...so that the distribution and generating companies don't have to carry the Burden?

This company

We just concluded a National Demand Study. It is the first focused, comprehensive study, not modeling, looking at growth rates of people, etc. We found out that the demand, including repressed demand, is 5,100MW

grew out of what we called a Special Purpose Entity (SPE), which we created when it occurred to us (at the BPE), that in a decentralized market, the incoming IPP as of that time-the AES generated Power -would be expensive. When other IPPs came up-Agip's Okpai, Shell, etc, their PPAs weren't problematic, so we didn't need to use the SPE for them.

By targeting to revamp the old generating plants haven't you found yourself squarely back in the year 2002, when the government still thought that part of the solution was to fix old generating plants for the old NEPA guard to operate. Those plants that were fixed have gone back to seed...Aren't we repeating the same mistake?

You have to appreciate that my job comes down to more power. I look at these power plants and say: which are likely to deliver 6000MW by year end. Those are the plants where my priorities lie. But my approach also engages a historical concern: Why is it that we achieved ostensibly 4,000MW and then fell back. PHCN then, as now, is not expected to meet its CAPEX, but the difference today is that we want to hold these guys more accountable.

How much electricity does Nigeria currently need?

Do you know what's interesting? We just concluded a National Demand Study. It's the first focused, comprehensive study, not modeling, looking at growth rates of people etc, and we found that the demand, including repressed demand, is 5,100MW.

But Shell said our demand, including suppressed demand, was 8,000MW, as far back as seven years ago..?

I can't comment on that..I just gave you a figure that's realistically determined.

What percentage of the population has access to electricity?

You know, we lost a huge opportunity to gather that sort of data during the last census count.

The Akwa Ibom Power plant has been completed, but the power cannot be evacuated beyond a certain point. The officials were fingering lack of completion of an NIPP transmission project for their shortcoming. I haven't seen this particular infrastructure.

The NIPP steering committee is working on the sort of projects that will evacuate power from Ikot Abasi. But the sequencing is what I don't know. These projects-generation, transmission, were not properly synchronized from the beginning..

Public debate has not always focused on distribution and transmission issues. You yourself have identified that only 3,500MW of the 6,000MW targeted generation can be distributed, with the current distribution infrastructure... What are the specific challenges in this area?

The transmission system can evacuate in excess of 6,000MW



Okpai: Nigeria's power infrastructure is undergoing heavy construction

into grid, but due to the fragility of the grid, there's difficulty in wheeling over 4,000MW reliably. So our focus is now on increasing MVA capacity at sub stations, removing bottlenecks, completing critical lines, especially the 2nd and 3rd Benin-Onitsha lines, and looking at 132kV load. Capacity on paper suggests we can distribute 6,000MW. However some repairs and replacement are being carried out to strengthen and expand distribution networks.

What's your timeline for getting the private sector in and how are you going to do it, work on the existing Expressions Of Interests?

I can't answer that, right now..

The Budget statement by the President last December says, in part: The key projects that will be funded by the 2009 Budget in the power sector include the Mambilla Hydro-electric power generation project for which N3.5 billion (\$24 million) has been voted, N21.5 billion (\$148 million) vote for other generation projects (including N6.5 billion (\$45 million) for the completion of the Niger Delta Power Holding Company's NIPP projects), N32 billion (\$220 million) for Transmission projects, and N19.25 billion (\$132 million) for Distribution projects;

These monies are not part of the N117.3Billion (\$806 million) that the Presidential Steering Committee of the NIPP is talking about; it can be quite confusing, honorable minister. Someone can come tomorrow and say Ah this is not voted for..

First those figures you're quoting for the budget are wrong. They have been updated. Besides, what the steering council talks about is not part of the Budget 2009. It's what the states and the Federal government have agreed to spend from the windfall account and there was a recent statement about that being N323Billion (\$2.2 billion). But don't take my word for it, sitting here. I need to go and do some calculations myself \$7.6 million.

There's a N1.1 billion voted for the Gas Supply Pipeline to PHCN Delta IV. That seems to be the only money voted for any gas line to a power plant. So how do we want to connect the other various plants with gas?

As far as the issue of gas delivery to power plants are concerned, that is not in my purview. Money voted for gas delivery of any kind is in the domain of the, Petroleum Minister and he has promised he'll deliver the gas I need to run the power plants. They are working on it.

The government built the 276MW Afam V barely eight years ago. Today, that power plant has been run down.

We took a short term loan to build a long term project. Nobody thought about maintenance.■



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 10th Floor, 10th Avenue, Lagos, Nigeria
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