IMPACT OF THE CENTRAL BANK OF NIGERIA'S INTERVENTIONS IN THE POWER SECTOR.

This Week, our Senior Associate, Moses Pila, contributed to an article in BusinessDay newspaper, West Africa's leading provider of business news.

The publication (linked here) examines the Nigerian Government's subsidy cut to the power sector as a result of the implementation of the service-based tariff regime, where customers are charged based on the number of hours of electricity supplied.

Below, we provide an overview of the impact of the Central Bank of Nigeria's interventions in the power sector which formed the basis of the BusinessDay article.

Key Contacts

Dayo Okusami
Partner
dayo.okusami@templars-law.com

Moses Pila
Senior Associate
moses.pila@templars-law.com

Background

The Central Bank of Nigeria (CBN) has been an active participant in the power sector with intervention schemes that started prior to the 2013 privatisation of the sector and these interventions have continued to date. According to media reports, the current intervention of the CBN from 2014 till date stands at over N1.5 trillion (approx. $4 billion). These interventions are largely through the Nigerian Bulk Electricity Trading Plc (NBET) and other direct interventions to sector participants.

Although the CBN is not a power industry operator or regulator, it influences policy in various ways including through its Power and Aviation Intervention Fund (PAIF). The PAIF seeks to fast-track the development of electric power projects; improve power supply, generate employment and enhance the living standard of the citizens through consistent power supply and provide leverage for additional private sector investments in the power sector.

Other interventions include the Nigerian Electricity Market Stabilisation Facility (NEMSF) which was made to settle outstanding payment obligations due to market participants during the interim rules period of the market as well as legacy debts owed by the Power Holding Company of Nigeria (PHCN) to gas suppliers and the Payment Assurance Facility (PAF) extended to NBET to settle invoices of generation companies (GenCos) to a minimum level of 80 per cent.

Recently, the CBN established the Solar Connection Intervention Facility to complement the Government's effort of providing affordable electricity to rural dwellers through the provision of long-term low interest credit facilities to the Nigeria Electrification Project (NEP) pre-qualified home solar value chain players. This will increase the overall cumulative exposure of the CBN to the power sector but promote the deployment of solar power solutions and mini-grids around the country.

Some achievements of the CBN Interventions and thoughts on the Way Forward

The achievements of some of these interventions span the value chain of the power sector. For example, according to the CBN, the significant capital expenditure (capex) of the NEMSF in the industry has led to recovery of generating capacity of more than 1,200MW in both hydro and thermal plants through the overhaul of turbines. Additionally, the CBN reports that through the NEMSF implementation, most distribution companies (DisCos) have been able to carry out projected capex through issuance of letters of credit (LCs) for the purchase of over 704,928 meters; rehabilitation of over 332 kilometres (km) of 11 kilovolt (kV) lines and 130km of 0.45KV lines; 511 transformers purchased and installed and construction of 56 new distribution substations as well as acquisition of a mobile injection substation.

Whilst noting that the overarching objective of the CBN interventions has been to sustain liquidity in the power sector and ensure the optimal performance of the market, certain challenges still remain.

These challenges include the market liquidity issues arising out of collection and technical losses as well as the non-cost reflective tariff for the sector. The cumulative effect of these on the sector has resulted in the perennial shortfalls recorded in the market revenue. Thus, unless these fundamental issues are addressed, there may be need for additional interventions in future to keep the market afloat.

Although the CBN is not a sector regulator, in view of its exposure to the sector through its various interventions it is prudent for it to seek to also influence policies that will address the general market imbalance as only a viable market will ensure the recovery of its funds and preclude the need for any future interventions. Whilst some of these policies may be outside the CBN's regulatory purview, there are some policies that are within the domain of the CBN that would have direct impact on the power sector market imbalance and liquidity challenges.

The issue of the US dollars component of the electricity tariff input is one of them. Gas prices and other elements of the capex for the sector participants are dollar-denominated. With the electricity tariffs in Naira, there is a perennial mismatch between revenue earnings and the capex inputs. Thus, while the exchange rate in the tariff is usually fixed, the fluctuations in the general foreign exchange market makes it challenging for the players in the sector to procure foreign exchange at the rate stated in the tariff. To address this, the 2020 tariff model requires that the Naira conversion of electricity price be made at 1% premium above the CBN rate. This was fixed under the tariff at =N=383.80/$1. Whilst this may be within the current ranges, any further weakening of the Naira will again exacerbate the problem resulting into the recurrent difficulty of players in the industry receiving payment based on the CBN rates and having the challenge of procuring dollars with the Naira receipts to settle any dollar obligations.

To address this, the CBN may opt to either provide further capitalisation to NBET or some form of payment support to enable NBET adequately meet its payment obligations under its power purchase agreements. This will in turn enable the generation companies to meet their payment obligations to their gas suppliers. The CBN may also choose to provide a special foreign exchange dispensation to the power sector to mitigate the challenges.

Another area that the CBN could actively influence is the area of collection leakages at the DisCo level. Even where, NBET has not been able to exert the required influence on the remittance level of the DisCos, the CBN can use its influence in the banking sector to act. For example, because every DisCo is guaranteed by a commercial bank, the CBN can exert regulatory influence over the conduct of the commercial banks regarding the DisCos' revenues and ensure the sanctity of collections and the priority of the remittances to the electricity market.

In conclusion, whilst the CBN interventions have over time yielded positive results as highlighted above, they must be matched with other deliberate regulatory actions within its domain to achieve a holistic result.