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News+: Time pressures for Nigerian power

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The Nigerian government is rushing to upgrade the country's gas pipeline network, as the construction of new gas-fired power capacity, new laws against gas flaring and a general election all move closer.

Nigeria proposes building a Trans-Saharan pipeline that would carry gas across North Africa and into the European mainland. Market observers suggest that while the intercontinental pipeline project is highly speculative, the government has made real progress in financing the domestic leg of the development.

The Trans-Nigerian pipeline will transport gas to the northern states of Borno and Sokoto and the central industrial state of Kano, and also include branches to pipelines serving other states. Nigeria Gas Company, a subsidiary of state-owned Nigerian National Petroleum Company (NNPC), plans to launch a multi-sourced financing for the roughly US$2.5 billion project, thanks to increased interest from international lenders.

The financing will benefit from state support, which should increase lender and investor appetite. The government recognises that power sector liberalisation will require additional gas transmission capacity. Laws that come into effect this year will fine producers for flaring gas, though most flaring takes place because oil producers lack the ability to monetise associated gas.

The government began its power sector reform in earnest in 2013 when it privatised 10 distribution companies (discos) and five generation companies (gencos). Now the state is gearing up for a second, larger, privatisation phase, and several large independent power projects (IPPs) are also near financial close.

International power project

The National Integrated Power Project (NIPP) launched in 2004. Under NIPP, state-owned Niger Delta Power Holding Company (NDPHC) would build 10 gas-fired plants with a combined capacity of over 5,000MW. To date only two of the plants are in full commercial operations while another two are partially operational.

But NDPHC's roadshow last year for the privatisation of all 10 NIPP assets attracted over 100 expressions of interest from local and international developers, and the government has now prequalified between 28 and 45 bidders for each plant.

NDPHC will retain 20 per cent of each of the NIPP plants, each of which would sell power to the Nigerian Bulk Electricity Trading company (NBET). The government established NBET in 2010 to serve as an intermediary between the discos and the gencos.

The government's plan is that Nigeria would eventually boast a fully merchant power market, but the private gencos and discos would first need to prove their operational mettle. Until then NBET will buy all of the output of the gencos and sell

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it on to the discos. NBET is meant to reassure investors that there will be a reliable buyer and seller for power, though the first phase assets changed hands in 2013 before NBET was up and running.

"The original intention had been for the power purchase agreements, vesting contracts and the transitional electricity market to be in place at the point the first phase assets were handed over. This has not been achieved, so the Nigerian Electricity Regulatory Commission has instead established 'interim rules' which are designed to offer a workable solution until that market can be put in place," says Arun Velusami, partner at Norton Rose Fulbright.

This interim solution involves discos collecting all of the revenues from power sales, keeping enough to cover operating costs and earn a profit, and passing the rest on to the gencos. This system is due to lapse at some point this year, and the introduction of the NBET may affect investor interest in the second round of privatisations.

Local liquidity

The Nigerian bank market financed most of the first phase privatisations with full-recourse, short-tenor debt. But Nigerian banks may not have the liquidity to provide the second phase's debt requirement of up to US$6 billion.

Development finance institutions (DFIs) such as the African Development Bank are expected to step in, though they will carry out deeper and longer due diligence, potentially slowing the pace of privatisations.

Velusami comments: "The second phase really needs to be finalised this year, as the country will be gearing up for a general election next year. It may be much more difficult to get transactions of this size completed in 2015, when political attention is diverted elsewhere."

One source working for a local bank suggested sponsors may use local banks to provide short term debt for acquisitions, and then replace it with DFI debt once they win all their approvals. Nigerian pipeline developers are also examining this structure.

The World Bank had shown interest in offering partial risk guarantees to sponsors involved in the first phase. The guarantees would have helped them access the international market, but none have yet been awarded. One project that is close to agreeing a PRG, however, is the Azura-Edo IPP.

The first of a new wave of Nigerian IPPs is Azura-Edo, a 450MW gas-fired plant for which a consortium led by Amaya Capital Partners is developer. Unlike the NIPP projects, the greenfield IPPs do not benefit from NBET taking full offtake risk, but a number of international banks are expected to participate, alongside DFIs such as the IFC and FMO.

If Amaya's IPP closes, other IPPs could follow suit towards the end of 2014. Amongst those is the country's first coal-fired IPP, at Itobe in Kogi state, which Zuma Energy is developing. The 1,200MW plant will use circulating fluidised bed technology and consist of two 600MW stages, with the first set for completion in 2018. The sponsor is negotiating a PPA with NBET, and expects to use project finance debt to fund the plant.

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