

PPP: Prospects in Power Sector

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As we all know, PPP is about a project development arrangement where the private sector partners with the Government in either the development and financing of a project or in its operation.

Prior to the privatization of power, it would have been possible to have PPP within the entire value chain of power production and delivery. However, with the advent of privatization of the generation and distribution assets in Nigeria, the areas of possible PPP investments have narrowed to specific areas on the value chain.

More specifically, the value chain includes fuel supply for power production, power generation, power transmission, and power distribution. In Nigeria, privatization program led to the sale of all the gas fired plants in the Country, and concessioning of all the hydro power plants in the Country. It also saw the sale of distribution infrastructure such that only the private owners are expected to invest in them. This is in spite of the fact that Government continues to hold a percentage of distribution assets. Distribution is therefore not a place for PPP investment.

There are three key areas where Private Public Partnership can be effective within the Nigerian power reform. The first is in gas production and transport. There are many power plants being developed in Nigeria that do not have visibility for gas supply. Yet we have fields with associated and non associated gas which can be utilized for this purpose. Because of the significant cost of developing such gas resources, the Government and the private sector can jointly develop such projects. Another area is in the main trunk pipeline for transportation of gas. The Government and private sector can undertake such projects to ensure that the gas pipelines envisaged to transport gas to various parts of the country can be built. This would ensure that gas pipeline can go to various parts of this nation for power generation as well as other industrial processes.

In power production, the generation of power via large hydros and coal plants can be capital intensive. Often, such projects are intended to achieve economy of scale and require tremendous amount of civil works and infrastructure. For this reason of significant capital requirement, many hydro and coal projects tend to involve governments. In the specific case of hydro projects, water rights make it necessary for Government to have some level of access and control over the project. Often, a hydro project would still have to deliver water for irrigation and other purposes. And, Government is more suited to relocating communities who currently reside at the hydro construction sites, as well as those whose locations would be affected by the dam/lake. For this reason, a joint venture between Government and the private sector achieve speed, efficiency and less contention for such projects. Similarly but to a lesser extent, coal fired projects achieve speed of completion when it is a joint venture between government and private sector.

Finally, the transmission infrastructure is a critical area where the Government needs to be involved because of the need for open access and capital intensity. However it needs private sector management and investment. PPP arrangements for projects in transmission will help

to build the network especially at higher tension, including a super grid network for both intra (internal) and inter (between nations).

On the commercial side of all these PPP arrangements, I would strongly recommend that Government be the junior partner in terms of control and managing the projects. This means that the Board of companies should not be loaded with Government officials or political appointees. In terms of management, this should be totally private sector with no Government representation. This way, the Government does what it knows best, which is facilitation of fast development of such projects especially in granting of permits and licenses. This is the Government's participation is particularly crucial in projects that require right of way access such as in gas pipeline construction and transmission line construction.

When we were initiating the privatization program for distribution, it is especially for the reason of easy achievement of right of way through the State Governments that informed our decision to have the State Governments be part owners of the distribution companies since Governors have control over land and its allocation in the Country.

These are the major areas for PPP involvement in power. There are also some other areas where Government can get involved with private investors. These include investments in large maintenance workshops, training facilities etc. However, private sector can do much better on their own in these areas provided such projects are financially sustainable.

In summary, there are three clear areas where PPP financing can help to achieve speed and efficiency in project development, construction and operation along the value chain of the power sector. It is important to mention that the selection process for the private sector partners is critical for the success of the project. The selection process must be transparent to allow competent private partners to emerge. Backroom deals will mar success of the entire project development and operation cycle. There are proven transparent processes which Government can employ to throw up competent private partners. Government has to resist the temptation of rigging such proven processes, such as competitive bidding.

The Nigerian Infrastructure Concessions Regulatory Commission (ICRC) has developed a process for private sector participants entering into the PPP projects while the ICRC would monitor the process until operation, the sector regulator would normally take over the regulation of the project during its operation phase. In fact the sector regulator would normally work hand-in-hand with the ICRC and the private operator as well as the specific agency of Government to get a PPP project delivered.