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Another step forward for the power sector as international investors bide their time

The announcement of successful bidders for ten gas power plants with combined generation capacity of 5,454MW marks another step forward for Nigeria's beleaguered power system. While numerous challenges remain, Nigerian investors are flooding into the sector and international companies are watching with interest, writes Dan Marks

The government has confirmed preferred and reserve bidders for seven of the ten power plants that make up the National Integrated Power Project (NIPP). Approval for the remaining three was halted by a court action brought by local company Ethiope Energy (*AE 274/1*). With a combined price of $5.8bn for all ten facilities, the sale revealed a higher valuation than many expected, demonstrating the draw of the potentially highly lucrative sector as well as the possibility of consolidation by some upstream players looking for reliable long-term gas offtakers. "The obstacles were glaring for all to see but the rewards are also potentially very handsome," Akindelano Legal Practitioners solicitor John Delano told *African Energy*. "The perceived profitability is the realisation that has sustained investor interest in the privatisation process."

Bids were opened from technically qualified bidders looking to acquire 80% stakes in the NIPPs on 7 March. *African Energy* understands that most of the bid consortia comprise Nigerian-led special purpose vehicles with assets in other sectors but with limited experience of running power plants on this scale, although some international investors remain in the mix. Similar to the privatisation of the Power Holding Company of Nigeria (PHCN) assets in 2013, experienced foreign power companies have been brought in as technical partners.

The absence of experienced international players is not thought to be a reflection on the sales process but rather on the still daunting number of unknowns in the sector. "I think that the international bidders are cautious and rightly so because there remain a number of unknown factors that make the market unpredictable," said Delano. "However, this is not necessarily a reflection on the bidding process, which has, to a large extent, been lucid, transparent and fair." Dentons senior counsel Raj Kulasingam told *African Energy*: "I think from a government perspective they've actually structured the process quite well, in the sense that they've put in these milestones and some hooks whereby you have to be serious about bidding or you lose your money."

The involvement of larger investors may also become clearer as the transactions move closer to financial close, due to the high risks in the early stages of the sale. According to Kulasingam, "you're putting up the 15% deposit when you do not know what is going to happen over the next year, including with the power purchase agreement etc". It is therefore possible that local partners will pay the deposit, allowing international investors to wait and see how the situation develops. "People are watching what's happening with interest and, over the next 12 to 24 months, the issues surrounding the multi-year tariff order, the transmission contract [under management contract to Manitoba Hydro], the World Bank guarantees etc are going to have to come together in a way that investors have some understanding and certainty on the bankability of these deals," Kulasingam said.

Bidders will now face a challenge to finance the remaining 85% of the sale price. While Nigerian banks are showing appetite for becoming involved in the process, many doubt the capacity of the market to continue to provide long-term financing or to provide finance at an acceptable price, even in the absence of construction risks and without strong involvement previously in the PHCN privatisation. Raising project finance internationally may be still more difficult. "If you're going to have project finance, then you're going to have to fix some of the issues like gas supply, transmission, financial covenant of NBET [Nigerian Bulk Electricity Trading] – all of these are issues that everybody is talking about. Resolution of these issues will play a critical role in guiding the market whether or not to invest," said Kulasingam.

Issues likely to persist

These challenges were highlighted in a damning presentation by Presidential Task Force on Power chairman Reynolds Beks

Dagogo-Jack in January. Dagogo-Jack said that only 800mcf/d of gas had been available in January, enough to sustain a maximum generation capacity of only 2,800MW, and the task force expects the gas supply to continue to constrain power generation for the next two years, with between 1,333MW and 2,221MW of generation capacity projected to be unavailable due to inadequate gas supply until 2016. Twelve gas pipeline projects with combined transfer volume of 510mcf/d which had been scheduled for completion this year are facing delays.

Dagogo-Jack also warned that the ability of the transmission network to evacuate power was likely to re-emerge as a major hazard in coming years, despite the completion of the 1,300MW North-South Transmission Loop which is expected in Q3 2014. Network stress tests in December 2012 suggested that 4,500MW was the optimal operational wheeling capacity of the grid. Dagogo-Jack said that, without a number of new transmission projects as well as the timely delivery of current projects, capacity will begin to constrain the system again by the end of 2015, "just when gas inadequacy is expected to be resolved, thus spinning the market into yet another vicious cycle of stranded investments ... and sub-optimal service delivery".

It now also appears likely that delays declaring the Transitional Electricity Market State – which will usher in a fully contracted electricity market regime – will continue, after minister of power Chinedu Nebo indefinitely postponed its implementation last month. It was due to begin on 1 October 2013 but was delayed because of the failure of the sector to meet a number of criteria. As a result, a set of interim rules designed to last for three months have been operating since December, which could affect the sustainability of the market "very negatively" if extended beyond the initial period, according to Dagogo-Jack, with particular ramifications for the already privatised generation and distribution companies. "The transition to a privatised regime is an uncharted one and, given the scale of the problems faced under the erstwhile PHCN, the reality is that the gencos [generation companies] and discos [distribution companies] will continue to face challenges for several months, perhaps even a year-and-a-half to come," Delano said.

Legal challenge

Within two weeks of the NIPP bid opening, the sale process for three power plants – Alaoji (1,131MW), Omoku (265MW) and Gbarain (254MW) – had already been stopped following a court order from a federal high court in Abuja. The interim injunction came after Ethiope Energy, which had been prequalified for all three gencos but was not among the technically qualified bidders, accused the Bureau of Public Enterprises (BPE) of bias, prejudice and conflict of interest. Ethiope argues that due diligence committee chairman Atedo Peterside had an excessive influence at the BPE and should have been removed from the process because of litigation he has undertaken against Ethiope's chairman, Chief Johnson Arumemi. Local media reports on 25 March quoted Ethiope's lawyer as saying negotiations were under way to reach an out-of-court settlement.

Commenting on the case's likely impact on the process, Delano said: "Although the private sector is not immune from ethical lapses it is much more driven by the need for profitability and survival than the public sector. The funds which have been staked in favour of privatisation are large ones and real, they represent the measure of interest and confidence in the sector. Although the allegations will slow down the speed of international investment my suspicion is that many will simply wait until the coast is clear before they invest."

Successful bidders

As a result of the court action, the Joint Transaction Board, comprising the boards of the National Council on Privatisation and the Niger Delta Power Holding Company, could only approve the preferred and reserve bidders for the remaining seven plants in their announcement on 21 March:

• Benin Generation Company, Ihovbor (508MW). Preferred bidder: EMA Consortium (bid price: $580m). Reserve bidder: Index Consortium (bid price: $575m).

• Calabar Generation Company, Calabar (634MW). Preferred bidder: EMA Consortium ($625m). Reserve bidder: Nebula Power Generation Consortium ($623.8m).

• Egbema Generation Company, Egbema (381MW). Preferred bidder: Dozzy Integrated Power Ltd ($415.1m). Reserve bidder: Aiteo Consortium ($392m).

• Geregu Generation Company, Geregu II (506MW). Preferred bidder: Seoul Electric Power Ltd ($690.2m). Reserve bidder: YellowStone Electric Ltd ($613.1m).

• Ogorode Generating Company, Sapele II (508MW). Preferred bidder: Daniel Power Consortium ($531.8m). Reserve bidder: ESOP Power Ltd ($510m).

• Olorunsogo Generating Company, Olorunsogo II (754MW). Preferred bidder: ENL Consortium Ltd ($751.2m). Reserve bidder: Index Consortium ($730m).

• Omotosho Generating Company, Omotosho (513MW). Preferred bidder: Omotosho Electric Power ($659.99m). Reserve bidder: ENL Consortium Ltd ($645.2m).

The three suspended power plants, which await approval, were awarded to:

• Alaoji Generation Company Nigeria Ltd, Alaoji (1,131MW). Sole bidder: Aiteo consortium (revised bid of $902m, initial $680m bid below reserve price).

• Gbarian Generation Company Ltd, Gbarain (254MW). Preferred bidder: KDI Energy Resources ($340m). Reserve bidder: Azikel Power Ltd ($305.1m).

• Omoku Generation Company Ltd, Omoku II (265MW). Preferred bidder: Shynobe International Ltd ($318.7m). Reserve bidder: Aiteo Consortium ($312.5m).

Among the major winners from the process could be Aiteo Power, which was appointed preferred bidder at the second time of asking after its first bid failed to meet the reserve price, pending conclusion of legal proceedings, for the largest power plant – Alaoji. It is also reserve bidder for the Egbema and Omuku gencos. Company chairman Benedict Peters founded the firm as Sigmund Communnecci in 1999, and it was awarded an oil swap contract in 2011. The company was one of five criticised by former Central Bank governor Sanusi Lamido Sanusi in the Nigerian Senate on 13 February alongside Walter Wagbatsoma's Ontario Oil and Gas, Tonye Cole's Sahara Oil, Igho Sanomi's Talveras and Dutch company Trafigura.

Furthermore, Swiss NGO the Berne Declaration has accused the company of operating a shell company in Switzerland, Aiteo Suisse AG, whose directors were Benedict Peters and Francis Peters. The company was dissolved in 2011 and a report by the NGO cites the Report of the Technical Committee on Payment of Fuel Subsidies, which determined that Aiteo should repay all of the N5.78bn ($36m) in fuel subsidies that it received. The Berne report states that Aiteo received an import permit before requesting it or obtaining official authorisation. According to the NGO, Aiteo also enacted two transactions with N4.94bn worth of subsidies without any supporting documents. There is therefore no proof that the products were imported into Nigeria.

Of the other investors, KDI Group is a 100% Nigerian company based in Port Harcourt. Its chairman is Kimse A B Okoko, a professor of political science and former president of the Ijaw National Congress, which represents some 15m Ijaw-speaking people from Bayelsa, Delta and Rivers states. Other directors include Keniebi Diton Okoko and Ihuaku Okoko as well as Admiral Ochegomie P Fingesi, Darego Maclayton and Nathaniel Otie. The group has eight subsidiaries, including KDI Energy Resources, operating in areas such as petroleum development, oil and gas, real estate, minerals and agriculture.

Dozzy Integrated Power is part of Dozzy Group, a conglomerate founded by controversial businessman Daniel Chukwudozie. The group is active in the oil and gas sectors, with petroleum storage facilities in Calabar, Lagos, Port Harcourt and Onisha capable of storing more than 120m tonnes.

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