Advisory Outlook

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Nigerian Power: Articulating the Path to Recovery

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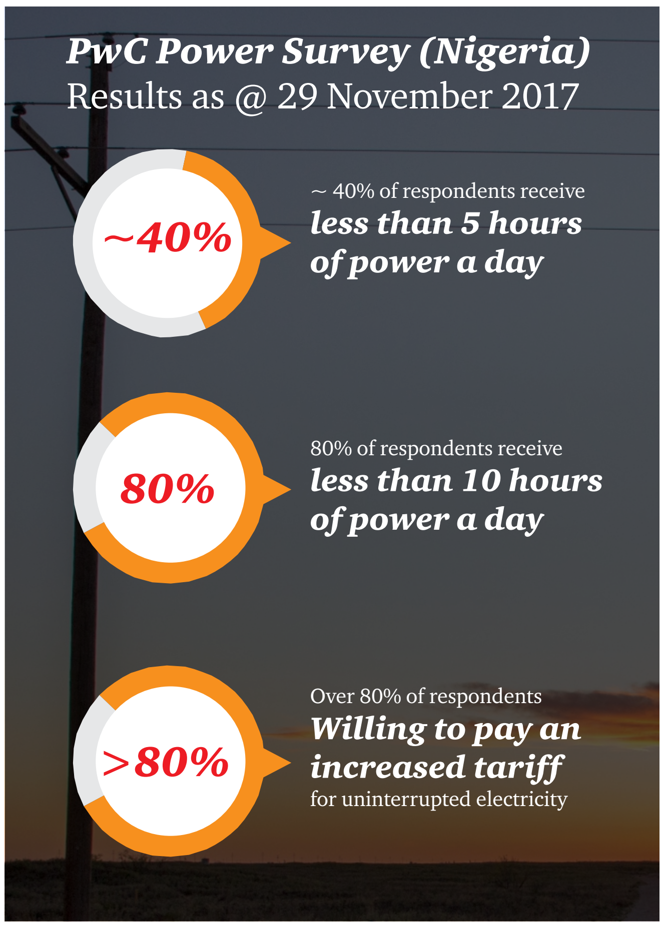
The Power Sector has been privatised for about five years and has been evolving in its search for stability and self-sustainability. Increasing levels of intervention from the government, regulators and global development finance agencies as well as rapidly evolving strategies from the private sector participants illustrates the intent by key sector stakeholders to improve sector performance.

However, coordinated collaboration is sometimes lacking and as such, the much needed collective push without decision makers working across purposes continues to be elusive.

The absolute need to collaborate and refocus conversations in the power sector on solutions rather than challenges has never been more necessary. The end users in the power value chain are expressing an increasing sense of desperation for a sustainable solution to their power challenges as the euphoria of the privatisation exercise dissipates.



Conversations in Power today are unfortunately dominated by the multitude of challenges and who's to blame for them. It's time to take ownership and constructively refocus stakeholder conversations on the pathway to recovery. Disciplined forward-looking collaboration amongst the key stakeholders is imperative, else we are doomed to remain in this quagmire for the foreseeable future. This theme was reinforced at the 8th edition of *PwC's Annual Power and Utilities Roundtable* which brings together key stakeholders to discuss key developments in the industry.

1. Investing in the recovery

More power needs to be delivered right through the power value chain to end-users

Power is the lifeblood of any economy's industrialisation programme, hence the success of Nigeria's planned economic and growth recovery is substantially hinged on improvements within the power sector. Expanding the generation and delivery capacity and capabilities of the power value chain is at the heart of the power investment thesis.

Expanding On-Grid generation capacity by improving gas supply to eliminate non-operational capacity, replacing obsolete equipment at power plants to restore unavailable capacity, investing in the development of new power plants as well as the expansion of existing plants remains a key piece of the solution. However, this must be supplemented by effective alternative less traditional solutions. Off-Grid Direct-to-Customer solutions and embedded generation initiatives are also key to establishing immediate stability in the sector.

There is need to enhance the development of renewable energy alongside the gas-to power program. Creative solar solutions which ensure rural communities feel the immediate impact of the power recovery program are also key for an enhanced standard of living for all Nigerians.

Investing in power cannot be contrived to mean only investing in power generation. It is imperative that the transmission and distribution capabilities within the power value chain are substantially enhanced. This means replacement and reinforcement of network assets as well as enhancement of people, processes & systems in transmission and distribution are an integral part of the solution
The considerable investment and enhancement initiatives articulated above does not only deliver value to power end users, but also to generating, transmission and distribution companies. Similar to the post privatisation growth in the meter manufacturing industry, local industries adjacent to power will be created as a result of these activities.

2. Funding the Recovery

Financing the multitude of investment initiatives / projects required to stabilize the power sector

Five years after the privatisation, financing has proven to be the leading enabler of sector stability that the sector stakeholders have not been able to come to terms with. As we look forward, the power sector financing story must be built around three key themes to attract the required funding partners to the table.

Firstly, existing power must be effectively monetised through the value chain. In essence, power generated and delivered through the value chain must be recovered at full monetary value. This requires the elimination of substantial cash revenue leakages across the entire value chain as a result of technical, commercial and collection losses as well as rebasing tariffs to reflect the full cost basis of delivering power. These solutions require discipline and resolve from both the sector players as well as the community it serves.

Secondly, historical financial obligations from sector deficits have to be restructured with a clear path towards resolution or elimination. New financing ought not to be encumbered by old obligations which will limit the value creation impact of funding new development programs.

Thirdly, accessing new finance from existing and new funding sources must be tied to very clear development initiatives in the core value chain.

Financing must be effectively structured around pricing, tenor and flexibility to enable required investments but also manage the risks of the financier.

Recent asset purchase transaction illustrates financeability of Nigerian Power if effective transaction discipline is maintained

PwC was Transaction Advisor on the recent successful asset purchase and financing transaction between the Abuja Electricity Distribution Company (AED Plc) and The Meron Consortium (Meron).

This transaction marks a significant milestone in the recovery of Nigeria's power industry. It clearly illustrates local and international long term financing can be attracted to the Nigerian Power Sector if the transaction is effectively prepared and structured.

AED Plc purchased ~250,000 electricity meters and installation services from Meron. The transaction was valued at NGN 10 billion and financed over a 12 year period , along with other very favorable terms, despite the current challenging market dynamic in the power sector.

Disciplined transaction structuring required a tailored and effective mass metering strategy (i.e. technically, commercially and operationally optimised) to enable / enhance AED Plc's s loss reduction and sustainable cash generation program; a robust two (2) stage procurement and three (3) stage negotiation process to identify the right counterparty for this long term partnership; and that supply, installation / rollout, warranties and financing were an integrated value proposition which ought not to be unbundled.

This transaction confirms that strategically disciplined power companies can secure access to long term financing, if the transactions are effectively managed and adequately structured. However, I must reiterate that these financing transactions must be contextualized within an effective value creation program i.e. certainty of an optimized technical, commercial and operational solution.

AEDC PLC

~NGN 10 Billion
Purchase of ~ 250,000 Meters
for Small Power Users

from

The Meron Consortium

with
~12 year financing

2018

Transaction Adviser

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3. Implementing and Monitoring the Recovery

Implementing an effective recovery management framework to ensure the recovery does not fail

The power sector recovery will be driven by a complex web of interconnected initiatives and stakeholders. The failure of one initiative or stakeholder to deliver on its mandate will have far reaching impacts on the entire recovery programme. As such, it is imperative that all stakeholders and initiatives are well aligned, coordinated and managed.

Given the nature of the power sector, with numerous stakeholders, it is imperative that there is clear ownership of the recovery programme by an individual or team with the requisite authority to act. Buy-in must be obtained from all sector decision makers and stakeholders and be retained through constant engagement. It is on this basis that the key stakeholders will align, be monitored and measured in line with clearly articulated performance targets.

Data analytics driven decision making must be at the core of the power industry. The sector will not achieve stability and sustainability as a whole if data isn't consistently collected from all industry players, analysed and used to inform policy and decision making. The establishment and use of real-time or frequently updated data visualisation platforms by industry participants is a priority initiative for the sector. There is also the need for the sector to evolve to predictive data models which will help hedge against asset specific and sector wide challenges long before the occur.

The journey to recovery is not a short one. Broader economic and market conditions will continue to evolve as the power sector embarks on its journey to stability. It is important that all stakeholders expect to encounter evolving dynamics and are flexible enough to adjust their strategies and targets to realign with sectoral and economic changes as they occur.

The Nigerian power sector will only witness the desired turnaround with careful and deliberate planning and implementation. Incentivising success and ensuring compliance amongst the large and diverse group of decision makers and stakeholders in power is paramount to a favorable outcome.

Key Takeaway

The path to recovery for the Nigerian Power Sector requires the successful execution of a myriad of complex and interconnected initiatives. However, three themes are clear in articulating the solution for Nigeria to meet its power needs:

- Invest in enhancing power delivery through the value chain to end users;
- Structure the right environment for financiers to fund these investment programs; and
- Deploy effective institutional frameworks for implementing and monitoring to ensure the recovery program doesn't fail

The journey to recovery has commenced!

The Annual Power and Utilities Roundtable report is available for download here:
https://www.pwc.com/ng/en/publications/power-utilities-roundtable.html

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