Power to Africa volume 1: Nigeria (part 2)

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Continuing on from Part 1 of our first instalment of BLP's Power to Africa series, which looked at the challenges and opportunities facing power generation and distribution in Nigeria, we now focus on Nigeria's energy policies and the anticipated future developments in the country's power sector.

Executive Summary

As we highlighted in Part 1, Nigeria (with a population of 177 million) has an estimated daily demand for power of 10 GW. However, due to a number of social, economic and infrastructure challenges, power supply only averages approximately 4GW, with access to power limited to around 40% of the Nigerian population.

In 2004, the Government of Nigeria (GON) committed to build 10 National Integrated Power Projects to add 4.8GW capacity to the national grid. If the GON is to meet this target and address the shortfalls in Nigeria's power generation, effective policy making to sustainably utilise the country's resources and develop alternative, greener sources of energy will be vital.

However, Nigeria's energy sector continues to be reliant on non-renewable power and so it remains important for the GON to help develop this sector responsibly.

Privatisation

Probably the most significant recent development for Nigeria's energy potential was the unbundling and privatisation of the country's power sector. In 2005, the GON enacted the Electric Power Sector Reform Act through which it restructured the National Power Authority to create eleven distribution companies and six generation companies.

Privatising the sector will hopefully allow for a much needed influx of investment in infrastructure and increase the country's system capacity. However, it is believed that despite 70% of the USD 2.5 billion privatisation being debt financed solely by local banks, liquidity in the Nigerian power sector still remains quite low.

Renewable Energy Policies

Recently, the GON introduced a target of 40GW of installed power capacity by 2020, with 10% coming from renewable energy sources. To reach this target, the National Integrated Infrastructure Master Plan estimates that at least USD 10 billion investment will be required.

In March 2015, Nigeria elected a new president, General Muhammadu Buhari of the opposing APC party, to succeed the PDP's Goodluck Ebele Jonathan. In one of the new administration's first policy decisions, President Buhari demonstrated his support for the development of renewable and energy-efficiency policies by approving in May 2015 the National Renewable Energy and Energy Efficiency Policy (NREEEP) which dictates the fiscal instruments that will be offered to the market.

Furthermore, the Rural Electrification Agency has established the Rural Electrification Fund to promote renewable energy in rural areas, and the Nigerian Electricity Regulatory Commission (NERC) has introduced regulations to promote and guide embedded renewable power generation within existing distribution networks.

More recently, in July 2016, the Nigeria National Council of Power adopted the country's Sustainable Energy for All Action Agenda. This is an overarching energy sector development programme to meet the UN General Assembly's goal to "*ensure access to affordable, reliable, sustainable and modern energy for all.*"

FITs

In 2015, the GON decided that a Feed in Tariff (FiT) would be set by the NERC and underwritten by the Nigerian Bulk Electricity Trading Company (NBETC). Draft regulations for Nigeria's FiT were published in July 2015 and it became apparent that the two attractive features are: (1) that it is denominated in US dollars rather than

Nigerian Naira; and (2) FiT rates will be fixed for the duration of the power purchase agreement.

While there are many small scale (<50kW) solar PV mini-grid and rooftop PV projects distributed across Nigeria built with small loans issued by the Bank of Industry and other lenders, there are no operating grid-connected renewable energy projects except for hydro. However, with the introduction of FiTs and the establishment of the NBETC as a credible and creditworthy offtaker of renewable power, supported by a World Bank Partial Risk Guarantee, this status appears on course to change.

Non-renewable sources

Despite the promising opportunity for Nigeria to develop its power generation based on a cleaner energy system, the GON is reluctant to fully relinquish the use of traditional and less green sources of power. Two such sources of power are set out below:

Gas

The Oil Producers Trade Section (OPTS), which consists of exploration and production firms, believes that the only way the GON will achieve the 40GW power target is to develop its gas resources and allow this to become the key enabler to power sector growth.

This assertion was supported by Osagie Okunbor, managing director of Shell Petroleum Development Company Limited, who said that Nigeria needs an approximate seven-fold increase in domestic gas supply for power generation alone and even more if we consider industrial needs.

It is believed that Nigeria has the capacity to meet these needs and refine up to 1.2 million barrels daily by the year 2020 if the government gave necessary support to operators in the industry.

However, there are still significant challenges facing the oil and gas industry in Nigeria. We discussed in Part 1 how Nigeria's civil unrest has affected gas pipes and transportation, especially in the Niger Delta. In addition, Nigeria suffers from funding constraints arising from cash call arrears, exchange rate differentials in a cyclical oil price regime, high operational costs and delayed payment to vendors.

Uranium

The GON has already commenced programmes looking into the generation of electricity from nuclear materials, particularly through the exploration, exploitation and utilisation of uranium. It has invited experts from the International Atomic Energy Agency to conduct a one-week training course for nuclear practitioners.

Minister of Solid Minerals Development, Dr Kayode Fayemi, believes that all resources available to the country should be considered for exploitation to meet its power needs.

His deputy director in the ministry, Wuyep Karnap said: "*Last week at the National Council on Power conference in Kaduna, the issue of uranium for power generation was actually canvassed as a vital component in the energy mix equation.*"

In March 2016, the GON announced it was working towards generating 1GW of electricity using nuclear energy. It stated then that the plan was to start a programme in the coming years that will initially give the country 1GW, increasing to 4GW thereafter.

Conclusion

Through investment and targeted energy policies, the GON under the leadership of President Buhari is making strenuous efforts to tackle the chronic energy deficit that has for many years constrained economic development in Nigeria. In doing so, it is looking not just to Nigeria's traditional sources of energy (namely gas) but, as with other countries in Africa, the GON is hoping to tap into Nigeria's considerable renewable resources such as solar, wind and hydro.

However, as Part 1 of this instalment has highlighted, Nigeria faces formidable challenges in this quest, principally from civil unrest, poor infrastructure and dwindling financial resources. Additionally, investment in all areas is falling far short of what is required to meet the energy needs of a growing population.

In summary, Nigeria needs a healthy dose of good fortune (a sustained uptick in commodity prices) and strong governance if it is to stand a reasonable chance of overcoming the challenges it faces in turning around its failing energy sector.

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