THE NIGERIAN BULK ELECTRICITY TRADING COMPANY AND LIQUIDITY CRISIS IN THE ELECTRICITY INDUSTRY: AN INTERROGATION.

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ABSTRACT

The Nigerian electricity sector has been characterized by underperformance and reputed for inefficiency since independence. Despite government efforts to reverse this trend through liberalization and privatization of two sections of the sector value chain - the power generation and distribution - and the establishment of NBET for the financial security of operators, liquidity crisis remains a major challenge. Hence, this article examines the role of NBET as enshrined in PSRB while the economic liberal theory was used as an anchor for analysis. Secondary data sources were explored for textual analysis for this study. The findings reveal that the non-privatization of the TCN and NBET bulk-buyer function limits competition among operators and also weakens solvency in the industry. The paper recommends that government ownership across the sector value chain should be disembarked while NBET should be expunged and replaced with private and public sectors owned insurance company to engender financial security and the sector regulator (NERC) strengthened financially and with a required human resource to enhance its capacity for taking proactive steps amongst others.

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1. INTRODUCTION

The electricity Sector in Nigeria has been characterized by underperformance and reputed for inefficiency since the country independence in 1960. It remains almost unabated despite efforts made by the Federal government to enhance its efficiency, including the establishment of the National Electric Power Authority (NEPA) in 1972 after merging the Electricity Company (ECN) of Nigeria and Niger Dam Authority (NDA) established in 1951 and 1962 respectively, and despite been vested with the production, transmission and the distribution of electric energy responsibility under the supervision of the Federal Ministry of power (Enoch Eware, Egeware, and Eyakwamor, 2015). Furthermore, to rescue the electricity industry from the limping performance syndrome, the Nigerian government commercialized NEPA in 1989 (Zayyad, 1992). While a continuous dependence of NEPA on the Federal government budget provision generated public criticism (Omoleke, 2011), indicating a poor financial resource base, Ajumogobia and Okeke (2015) maintain that the limited power generation, transmission, distribution and poor infrastructure were among other challenges that also accounted for her below-expectation output. These problems eventually incapacitate NEPA from making a significant impact on the sector, more especially that of delivering an effective and efficient service to its teeming customers.

In response to the above, the Federal government broke the NEPA’s monopoly by enabling the private sector participation in the generation and distribution (the transmission was excluded) of the sector value chain through the enactment and signing into law of the Power Sector Reform Bill (PSRB) in 2005 (Onagorudua, 2011). The PSRB serves as a blueprint for the sector operation; it is wide in scope transcending deregulation and privatization of the generation companies (GENCOS) the distribution companies (DISCOS); provides for government floating of the National Independent Power Producers (NIPPS) and licensing of the Independent Power Producers (IPPS); and, includes the setting up of allied sub-sectors in the industry such as the electrical equipment manufacturing companies. Also, the PSRB provides for the establishment of the Nigerian Bulk Electricity Trading (NBET) as the sole buyer of electric energy from the GENCOS (Tinuoye, 2017).

Moreover, one of the major objectives of the reform is to reduce the cost of production or cost of doing business aside from that of fostering a national electricity market development, ending epileptic electricity supply, attracting new investors...
and improving efficiency in the generation, transmission and the distribution network (Kadiri, Agbaje and Alabi, 2015). However, while the industry reform appears comprehensive and promising, Adesina (2016) submits that the greatest problem facing the industry is liquidity. By this assertion, the floating of NBET, which ordinarily should alleviate the financial deficiency, seems to prove otherwise, making the purchase of power from the DISCOS constitute a threat to its realization alongside that of lowering the cost of doing business objective in the sector. Hence, the relevance of NBET in a liberalized sector is questionable especially as the challenge of cash flow constraints seems to continue to soar and remains a hot-button issue in the industry. Therefore, can one argue that the NBET presence is adding value to the sector solvency? And, because there seems scanty research addressing this issue in the literature, this paper appears timely with its objective to undertake a critical examination of NBET role as enshrined in the EPSRA in the light and context of the current realities on the financial situation in Nigeria’s power sector. The paper is divided into six sections. The introduction, research method, theoretical framework, reviews of the NBET, NBET role interrogation and the conclusion and recommendations respectively.

2. RESEARCH METHOD

To actualize the research objective, data gathered from the secondary sources are textually and descriptively analyzed. This provides premises for drawing inferences employed to arrive at the conclusion and offering of recommendations. Since there exist few works on NBET in the literature and coupled with the fact that it is necessary to interrogate the essentiality of its functions to widen and deepen the understanding of its role in the sector especially regarding the industry financial stability, the employment of the secondary data seems appropriate because it provides a piece of credible information sufficient for the research. As well, secondary data analysis helps to create inputs for meta-analyses to generate useful and powerful results (Maclnnes, 2020).

3. THEORETICAL FRAMEWORK

This paper employs economic liberal theory to underpin its analysis. The theory is one of the strands of liberalism theory or model (including political liberalism) developed in response to mercantilism in the national and global economic relations (Brett, 2012). While political liberalism stresses the importance of the democratization of the society and individual liberty, economic liberalism argues that governments should least interfere in the production or service industry of a country and, as well, allows free market reign where demand and supply interface determines the prices of goods and services - which is a pointer to the private sector dominance participation in the production and service sectors of the economy. Other core assumptions are: there exist a non-coerced exchange of goods and services between parties; private property owners should be allowed; division of labour festers in the industry; and, the right of choice by consumers is also promoted (Berkely Education, 2011). Although the economic liberal theory is propounded or traceable to the liberal and neo-liberal scholars such as Adam Smith, Alfred Marshall amongst others, it cannot still be divorced from political liberalism because both are somewhat intertwined, making it almost impossible for a country (especially the capitalist oriented) to embrace just one of the two sides of a coin of the liberalist tenets. The theory applies to this study in many respects. First, the Nigerian power sector is liberalized but not fully privatized as TCN and NBET are owned and controlled by the Federal government which extenuate the essence of the former and its operation, increasing the government participatory role in the economy. Hence, the presences of these situations in the Nigerian electricity sector oblige the thrust of economic liberalism theory.

Also, the inability of the DISCOS to choose whose energy generating firm to patronize and negotiate for price or partake in the design of the memorandum of understanding with their preferred supplier because of the NBET middle-man function indicates an absence of a free market enterprise and an entrenchment of a coerce-exchange, negating the tenets of economic liberty operation in the sector. Though the operators in the industry seem to enjoy a division of labour, the private ownership sector is limited to the GENCOs and DISCOS excluding NBET and TCN. Therefore, the restraint of a full application of economic liberalism in the sector seems to be a major factor responsible for the liquidity crunch burden being experienced in the industry as the leading role of the private investment upon which a liberal economy or sector is hinged, is compromised and undermined.

4. NIGERIAN BULK ELECTRICITY TRADING COMPANY (NBET)

NBET was incorporated on July 29, 2010, and is wholly owned by the Federal Government mainly in fulfilment of the EPSRA (NBET, 2018). Also, NBET is managed by the Bureau of Public Enterprise and NCP (Adesina, 2016). It is popularly referred to as “Bulk trader” because it serves as an energy off-taker from the generation companies and as a wholesaler, acting as a middle-man between the DISCOS and DISCOs through vesting contracts. In other words, the NBET is a single buyer of generated on-grid power and sole seller to the retailer distributors making the sector share the features of a monopolistic structure and consequently not competitive as envisaged by the reform act, more importantly, the goal of injecting competition into the industry. As such, direct trading between the GENCOs, and even the NIPPs or IPPs licensed generating power agents and the distributing channels (DISCOS) is impossible. In effect, it stifles the competiveness of the sector and deprives alternative sources of power procurement for DISCOS as well (Tinuoye, 2017). Nevertheless, NBET (2018) states four top priorities amongst other objectives thus: to manage the financial flows for physical supplies of power in the value chain, create a competitive market that promotes discovery of value for commodity and capacity; encourage contract-based market where parties take responsibility for inefficiency risk; and, formulate and provide policies advise that ensure least cost incentives of
system in the transportation network of power. However, there seems to be a conflict between the NBET over aching objectives and the reality of its operation. For instance, while has been moved from the ministry of power to finance recently to improve the performance of its role (Oni, 2021), has its service improve the financial flow in the real sense of it or engender a competitive network in the pursuit of least-cost and responsive sustainable policies? These are big questions which answers appear paradoxical or irreconcilable with the NBET set goals.

Furthermore, the government ownership of NBET alongside Transmission Company of Nigeria (TCN), the conveyor of generated power, implies the industry remains under the public sector firm grip while the private sector only operates the generation and the distribution ends of the value chain. This suggests that there exist a rivalry between a market premised and the public controlled operations in Nigeria’s power sector. But, it seems inappropriate for two almost opposing business orientations to guide the management of a very important industry kernel to national economic development, especially under the private-sector driven regime as captured by the PSRB. Therefore, having a second look at the NBET roles with a view to revising the service component as contained in PSRB or its relevance to the industry, going by the current reality, appears necessary.

5. **NBET AND ITS ROLE: AN INTERROGATION**

This section examines NBET role in the Nigeria electricity power industry to appraise its performance, justify its relevance or otherwise in ensuring a seamless cash flow that is devoid of hic-ups and entrench a competitive sector. While it is a fact that NBET was established to ensure the security of facilities in the industry (Okedu, Kenu, Idowu an Uhumwanbgo, 2018), yet the extent to which she actually promotes this in interfacing with operators and stakeholders in the face of the seemingly manifest adverse impact demands a critical evaluation. In the first instance, the DISCOs and GENCOs operations have been hampered by financial deficit making them beacon on the Federal government often for bail-out funds in response or as an alternative to refusal by the financial institutions to grant their request for the loan facility. The commercial banks or financial companies hinged the denial of the facilities to the DISCOs and GENCOs revenue insecurity alongside the failure of some of both the former and latter to default in the repayment agreement for loans granted for the initial acquisition or take-over facilitated by the Central Bank of Nigeria (CBN). For example, to bridge the financial gap payment by DISCOs and GENCOs after privatisation, “the CBN issued a bail-out loan package of 213 billion naira ($1.1 billion) by the Nigerian Infrastructure Advisory Facility (NIAFIII)” (Nieberk, Yurchenko and Lethbridge, 2017:17).

However, in a situation where easy access to the financial facility for the value chain operators from financial instructions is impeded by revenue insecurity, the NBET, expectedly, is to cushion the effect or rescue them from such a disturbing situation. Unfortunately, this is often not the case, perhaps because the bulk purchaser is not well-capitalized. Alli, (2006) maintains that the power sector experts views reveal that NBET 800 billion dollars capitalization is insufficient for the sector and the senate – the upper legislative chamber - of the national assembly also refuses to allow her to raise 309 billion naira ($100 billion) bond. This, undoubtedly, further enervated the NBET capacity to cover the DISCOS payment shortfalls. Implicitly, the financial ‘securitizer’ - NBET- is bereft of the requisite capital strength to keep the industry afloat perpetually. Therefore, the core essence of NBET establishment in the first place is questionable since it falters in discharging her core mandate. In addition, the operations shortage of fund is having a cascade impact on the operators’ performance in the value chain especially the DISCOs and the GENCOs. For instance, the GENCOs, according to Adesina, 2016:13) owed to gas suppliers 100 billion accumulated debt between 2013 and 2016 while the DISCOs have not been able to upgrade the inherited facilities or metered customers as agreed before taking over. It is believed that these experiences might have been minimized if NBET provides the palliative capital support as envisaged.

Moreover, in a fast-paced changing world and business environment where states are integrated than envisaged, the electricity sector powered economy growth is increasingly becoming indispensable. For instance, while the fast spread of Covid-19 pandemic across countries and territories resulting into almost global shut down in 2020 are unprecedented and unimagined, the aftermath effect on Nigeria’s power sector is huge. It is estimated at 57 billion naira (approximately 12 million dollars) loss to the power industry (Oni, 2021: 1). In this sense, a dependable shock-absorbing mechanism is expedient in the system to cushion the effects of this and future disrupting events that NBET seems unable to undertake. Besides, the rising indebtedness of DISCOs to NBET since their taking-over also makes one leery of the latter efficiency. The debt profile of the DISCOS is a trend that needs to be tamed if the industry is to be positioned for sustainable financial stability and profitability. From the records, while the DISCOS failed to remit a total of N173.35 billion naira (approximately $44 billion) for supplied power between January and April 2020 (The punch, 2020), it has accumulated to 416.94 billion naira (approximately $ 1 billion) by September of the same year (Ripples Nigeria, 2020) as the average of the DISCOS paid 22 per cent of their monthly received energy cost that is far below the minimum remittance (The punch, 2020). In consequence, the Federal government funding of the revenue gap arising from the difference between the cost-reflective tariffs and the actual end-user tariffs paid by customers continue on a rising trend.

Furthermore, the chain effect of the DISCOS erratic payment lifestyle vitiates the ability of the GENCOS to bankroll the cost of gas supply, hence aggravating the liquidity problem. It is instructive, from this experience or submission that the NBET appears to not only be shielding the DISCOs access to transact directly with the generating companies (GENCOS) but as well permit indebtedness to fester in the sector under the disguise of serving as a broker. In effect, the free cash flow is
hampered and the sector’s liquidity is threatened. In this sense, revising or ending the middle-man like bulk-buyer of NBET function is, obviously, requires reconsideration.

In addition, the monopolistic status of NBET makes the competitive market tenet that is fundamental for optimum functioning of a liberalized sector almost absent. Hence the tendency for market determination of energy price by the force of demand and supply is circumvented, and the DISCOS’ right to choose a desirable power generating firm(s) is curtailed. When competition is restricted in an industry or economy, it appears that the private-sector-propel-growth via capital injection (foreign and domestic) is automatically restrained. To increase Nigeria’s electric power industry capital base, the doors of the three ends of the value-chain (generation, transmission and distribution) need to be flung open for the influx of private investors while the regulatory body stays awake to operators’ activities. In this sense, it is plausible to argue that the government-owned and managed NBET should be excused from the network while TCN is as well considered for privatisation to entrench a full-fledged private sector driven electricity power industry. As a corollary, the current Nigerian electricity structure appears defective because of its inability to ensure or entrench financial stability. For instance, the pricing structure of Multi-Year Tariff Order (MYTO) is not cost-reflective, the DISCOS collection efficiency is low at 65.6 per cent of the total billings; the Federal government continues to pump bail-out fund even years after the privatisation of the sector (approved 213 billion naira for DISCOS as loan in 2014, 701 billion for power assurance guarantee for NBET in 2017 and 600 billion in 2019 to offset the monthly invoices payments by key stakeholders (PWC, 2019: np). And because a structural component of a system influences the relationship and performance of its operators or stakeholders, the evidence of the Nigerian electricity industry seems not only affirms this but also suggests an urgent need for its recalibration.

6. CONCLUSION AND RECOMMENDATIONS

This article undertakes a critical examination of the role of NBET as enunciated in the PSRB vis-à-vis the current reality of the electricity industry liquidity status. The analysis of shrewd evidence reveals that the partial liberalization of the sector - privatisation of the GENCOS and DISCOS leaving out TCN - and, more importantly, NBET as a bulk buyer of generated electric power is the underlying cause of the cash-flow crisis. In order words, whereas the sector is acclaimed and portrayed to be exposed to under the command of the private operators or investors, the government tenacious holding to the financial securitization through NBET brokerage between the GENCos and DISCOS largely hampers a full-length operation of a private-sector driven industry. The DISCOS indebtedness to the GENCOS is formally accommodated by the NBET middle-man posture which, as well, gives birth to the government incremental funding of the sector under the auspices of stabilization or subsidy. However, this reality resembles mercantilism geared towards protecting the country or a sector in this sense from competitors, government least participation or forced patronage that undermine consumerism right of DISCOS that is fundamental to the tenets of the liberal economic framework. These findings disagree with the submission of Brett (2012) and Berkely Education (2011) on economic liberal theory.

To reverse the challenge of the liquidity crunch in the electricity industry, this work suggests the following. First, every form of government ownership (presenting the government as a participator in the economy) across the sector value chain should be disembarked. That is, the TCN should be fully privatized while the NBET is scrapped or expunged and replaced with an insurance institution (like the kind of the Nigerian Deposit Insurance Company (NDIC) in the financial sector) jointly owned by both the private and the public sectors. Second, the regulatory institution (NERC) should be strengthened with human and financial resources to make it more proactive in its watchdog role, especially in the energy pricing determination, first, between the generation and the distribution companies, and second, the DISCOS and the energy end-users. The third recommendation is that strategies to increase customers’ payment for consumed energy such as the provision of prepaid meters should be fast-tracked by DISCOS to minimize their debt profile; a drastic reduction of government ministries, departments and agency indebtedness to DISCOS facilitated by governments at all levels (central and sub-national) while the Federal government encourage the financial institutions to avail the sector’s operators access to financial loan or facilities at a single-digit interest rate. Authors believe that these measures will evict the industry out of its current liquidity quagmire, revitalize the sector and as well serve as a springboard for moving it from goals achievement to a steady growth trajectory.

7. REFERENCES


