



ALP SEMINAR SERIES – Transforming the Nigerian Power Sector

Bulk Trader in the Power Sector Transformation

Presented By

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Outline

- About NBET
- NBET's Role in the Evolving Electricity Market
- Philosophy behind NBET's contracts
- Key Risks Along the Power Value Chain
- Allocating Power Industry Risks
- Backstopping Bulk Trader's PPA Obligations
- Conclusion

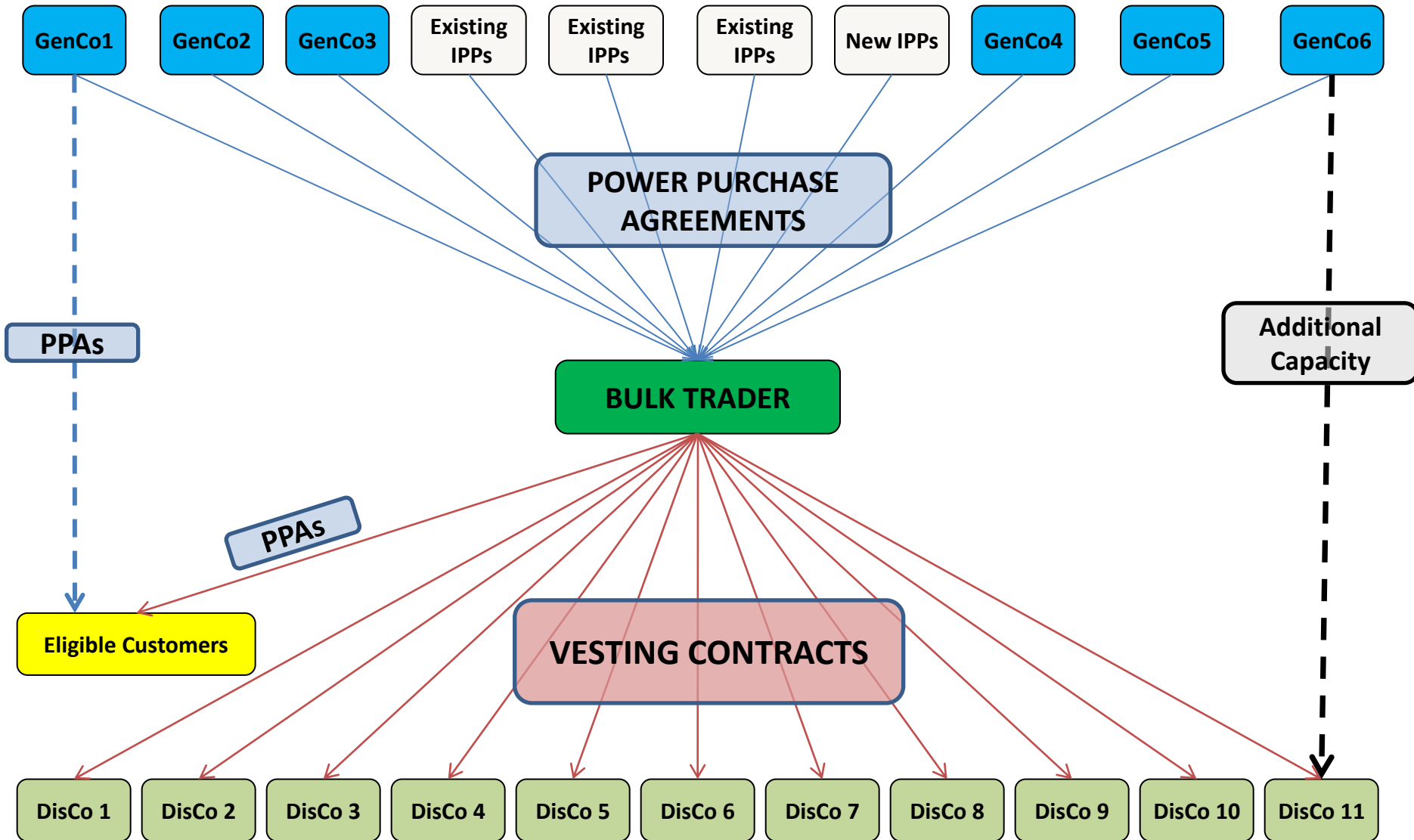
About NBET

- Established pursuant to the Electric Power Sector Reform Act (EPSRA) enacted in 2005
 - "trading licensee holding a bulk purchase and resale license"
 - to "engage in the purchase and resale of electrical power and ancillary services from independent power producers and from the successor generation companies..."
- Acts as a broker between power producers and the distribution companies until market conditions are ripe for its exit from the market
- 9-man Board inaugurated August 23, 2011
 - Chaired by Honourable Minister of Finance
 - Others include; Hon. Minister of Power; DG, Bureau Public Enterprises, DisCo Rep and 4 independents

NBET's Role in Evolving Electricity Market

- Sign PPAs with privatised generation companies
- Assume PHCN obligations in existing PPAs with IPPs and International Customers
- Negotiate and enter into PPAs with Greenfield IPPs and State-owned power plants
- Resell power via Vesting Contracts with Distribution Companies
- Sign power sale agreements (PSA) with eligible customers
- Act as FGN's anchor for guarantees provided by the World Bank (PRG) in support of Gas Supply Agreements and PPAs.

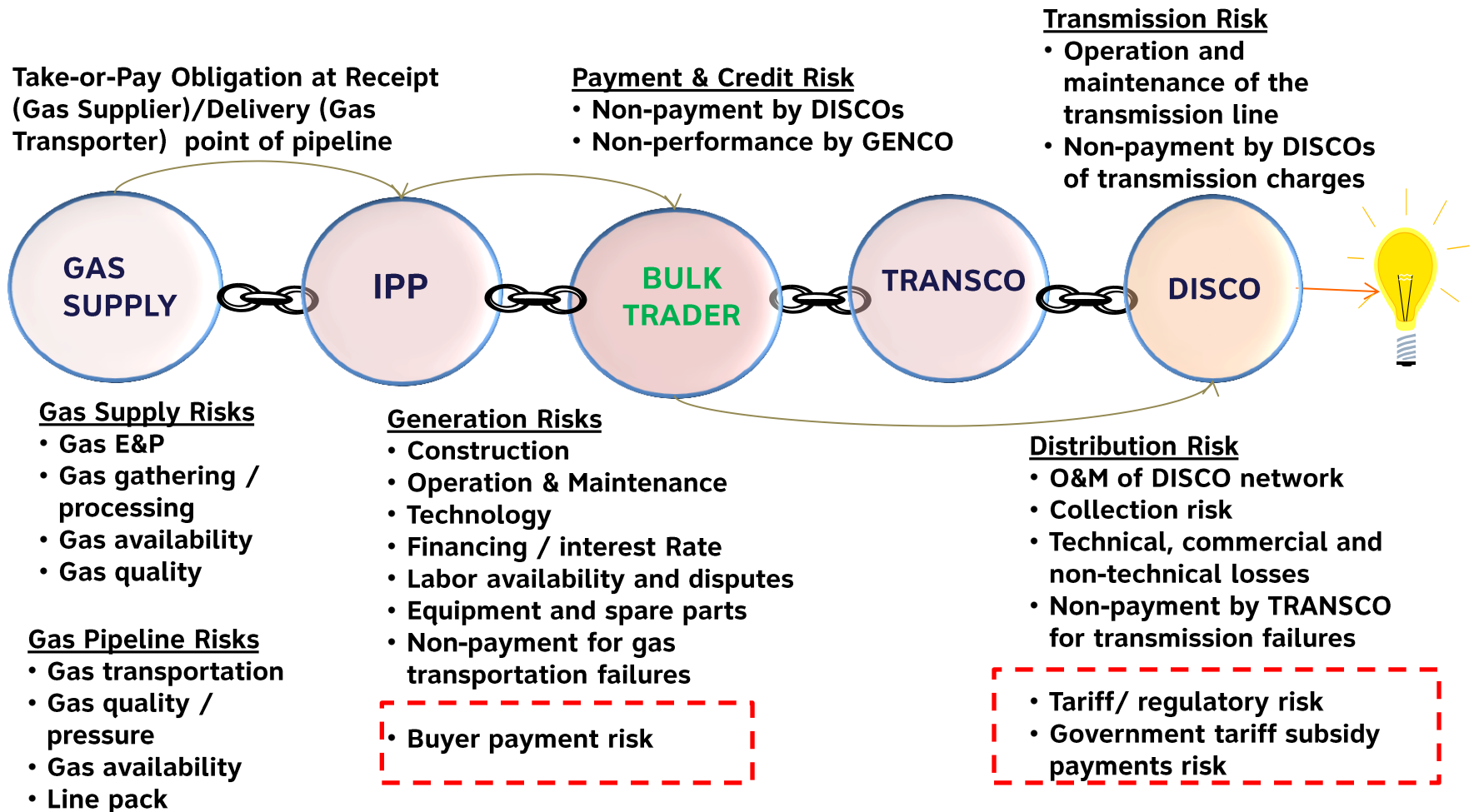
Transitional Market Trading Arrangement



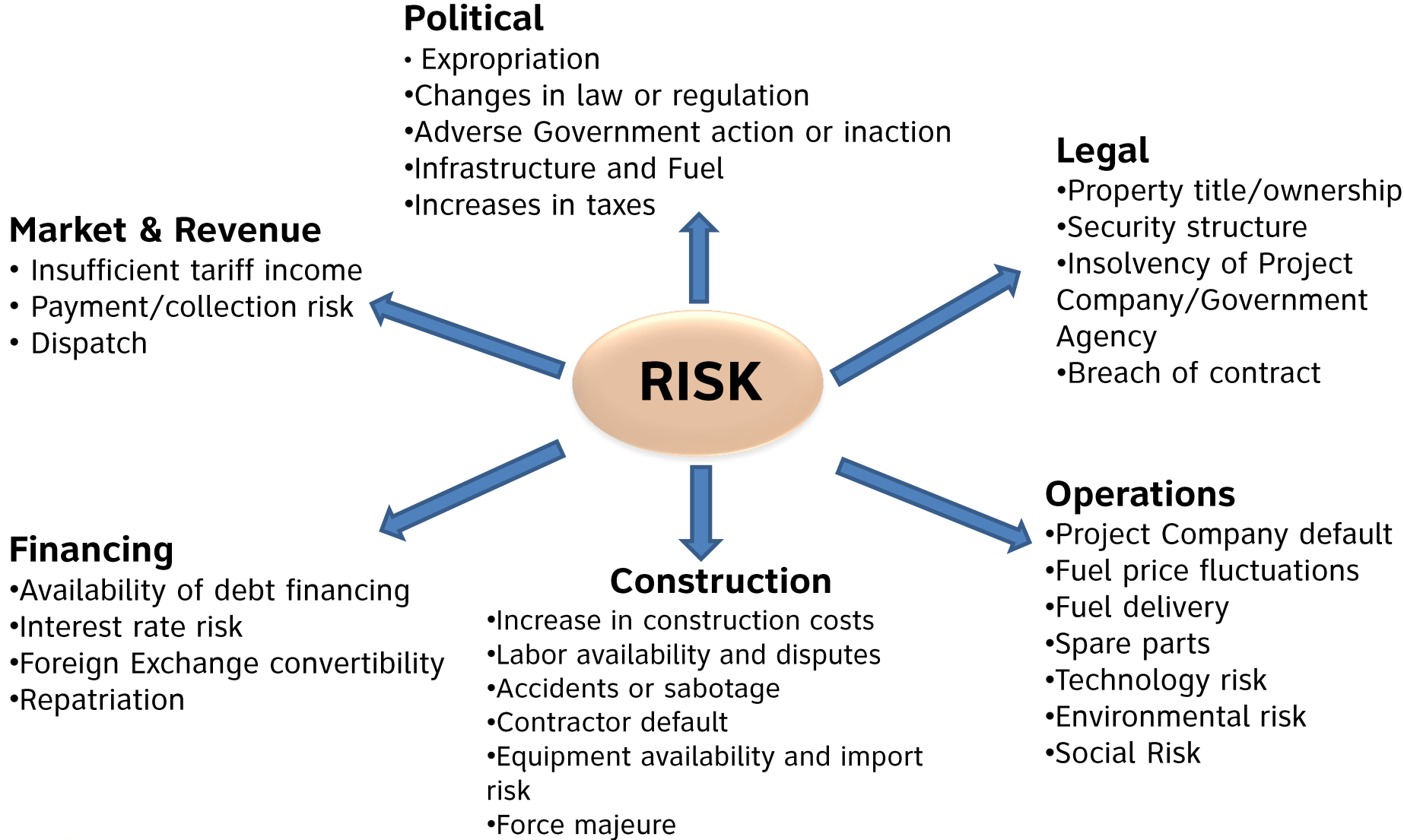
Philosophy behind Bulk Traders Contracts

- PPA
 - Fair risk allocation between parties (for NBET, read DisCos and ultimately consumers)
 - Well coupled with other agreements – gas supply, gas transportation, connection, EPC
 - Returns to IPPs are fair to incentivize investment but not lopsided to threaten market development
- Vesting Contracts
 - Guarantees each DisCo a share of the supply
 - Enforces revenue performance by DisCos

Key Risks Along the Power Value Chain



Risks Types Addressed through PPA and Tariff



Allocating Power Value Chain Risks

- It is important that the party best able to manage a risk be the one that wears it
- IPPs will bear risks associated with financing, construction, power generation and continuous plant operations
- To enhance bankability, NBET as a market building entity bears off-taker, market and payment default risks
- NBET may also be required to take on various risks that are within the control of government and SOE entities
- NBET will work with other government entities to minimise Federal Government's exposure within the PPA

Risk Allocation Matrix - 1

Nature of the Risk	Entity Assuming the Risk
Construction Risks: including site security and suitability, cost, schedule and plant performance	Investors take these risks, but will seek contractual protections from EPC Contractor for some things
Operations Risks: such as equipment failure, unavailability of labor, consumables, supplies and parts or low availability or efficiency below guarantee	Investors take these risks, risks on a “pay for performance” basis, but will seek limited contractual protection from an O&M contractor and, sometimes, insurance for equipment failure
Market and Revenue Risks: Cost increases above amounts allowed in tariff	Investors take these risks, but have limited protection through agreed escalation in tariff
Market and Revenue Risks: Off-taker and Payment Default Risk	NBET takes these risks as buyer/reseller, with FGN support, but will have a measure of protection through vesting contracts with privatized DisCos, which will include payment security
Gas Transportation Default	NBET with FGN support, takes the risk with minimum performance standards from NGC

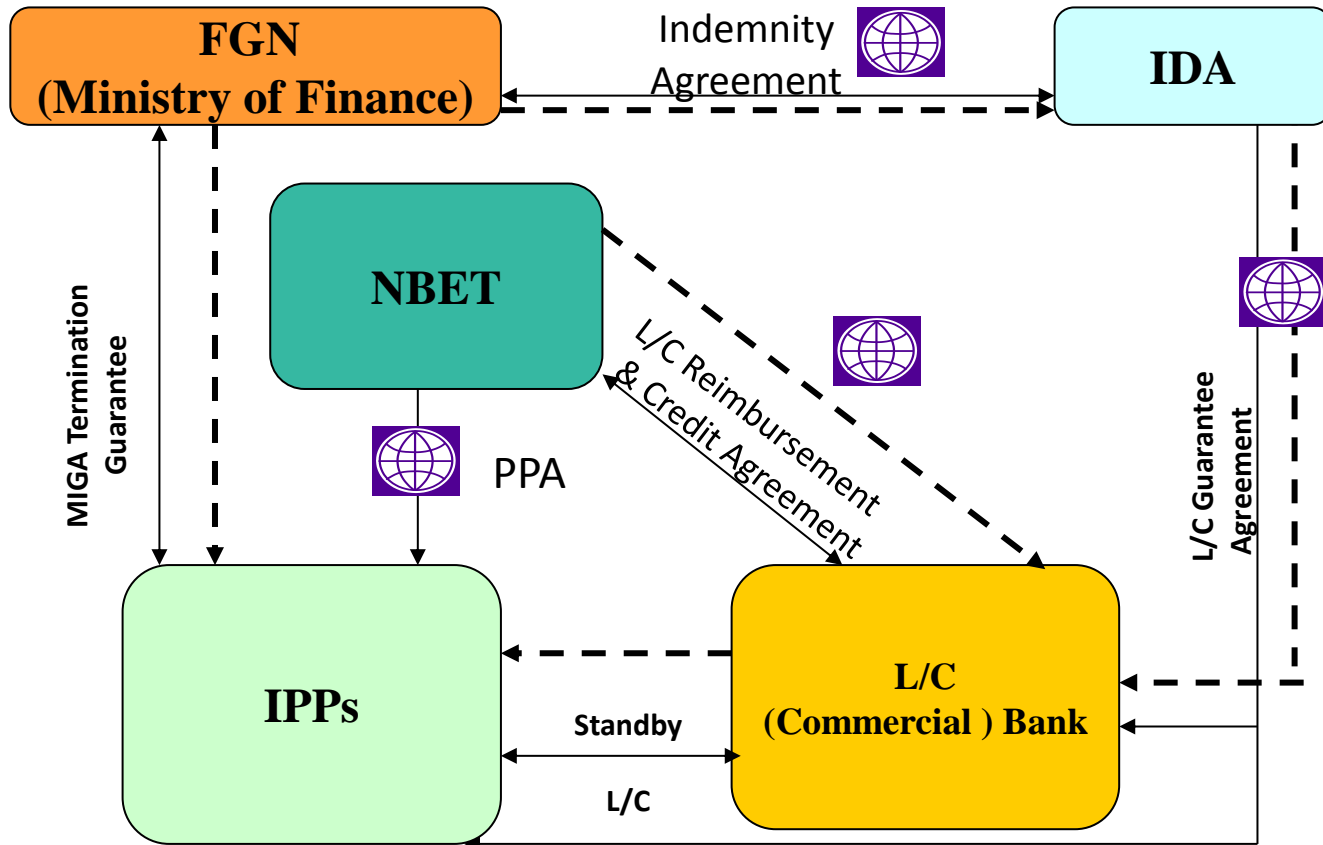
Risk Allocation Matrix - 2

Nature of the Risk	Entity Assuming the Risk
Political Risk: Local Political Force Majeure, Change of Law, Change of Tax, and Expropriation, i.e., such events occurring in Nigeria	NBET takes these risks as buyer, with FGN support
Foreign Political Force Majeure, Change of Law or Tax, and Expropriation, etc. occurring outside Nigeria	Investors take these risks, but may seek limited protections from international insurance institutions with no recourse to FGN
Natural Force Majeure	Investors take these risks when it affects their facilities, but may obtain limited protection through insurance. Investors may be relieved from PPA obligations to deliver capacity and energy due to natural force majeure, resulting in a loss of expected benefits to NBET, and thus these risks are shared in part by NBET

Backstopping Bulk Trader PPA Obligation

- Credit/ Liquidity support through World Bank's Partial Risk Guarantee
- Additional through required bank guarantees to be posted by privatized DisCos
- NBET maintains robust working capital
- Termination Risks through Federal Government Letter of Support

Structure PRG Revolving Standby L/C Facility and MIGA Termination Guarantees in Support of IPPs



PRG



Contractual Agreements with no regular Payment flows



Contractual Agreements & regular Project Payment flows



Payment flows in the event of a Breach of the Power Purchase Agreement

Conclusion

- The Bulk Trader is a critical enabler for the electricity market evolution
- Enjoys solid FGN support for its PPA obligations
- However, the best guarantee for a viable sector is the strengthening of all the links in the chain so that each party is able to manage its fairly allocated risks
- NBET's PPA and Vesting Contracts designed to do it

THANK YOU