

Power Sector Updates

Power Sector Watch | Q2 Updates

KPMG in Nigeria | June 2023

Liquidity challenges of Distribution Companies pose high risk to the execution of bilateral power contract¹

The bilateral power contracts introduced by Nigerian Electricity Regulatory Commission NERC to aid the direct sale of power from Generation Companies (GenCos) to Distribution Companies (DisCos) may be challenged by the liquidity challenges faced by most of the DisCos.

NERC had earlier in the year, instructed the 3 biggest DisCos - Eko, Ikeja and Abuja DisCos, to commence the implementation of bilateral contracts with GenCos of their choice effective 31 March 2023. The bilateral power contract follows an unsuccessful implementation of the partial activation exercise of the Power Purchase Agreement (PPA) in June 2022 which was overseen by NERC and the Nigerian Bulk Electricity Trading Plc (NBET). The PPA created a long-term contract with GenCos with conditions for purchase of electricity generated by the companies. The PPA was not fully implemented due to challenges with the national grid and non-payment of outstanding debts which should facilitate the repairs of units in the power plants. Based on the PPA, the GenCos were assured payment of 100 percent of their monthly market invoices upon fulfilment of their obligations as stipulated in the PPA. The PPA also stipulated that failure of NBET to pay the monthly market invoices will attract interest on any outstanding amounts. The failure of the partial activation, according to GenCos, was due to an absence of a handshake between the PPA and other interrelated agreements, and the imposition of contractual terms on the GenCos which were not in the original agreement.

Based on the above, the bilateral power contract, which will allow the DisCos to engage directly with willing GenCos for energy supply on mutually agreed terms, is expected to improve on the PPA, boost power generation

and electricity supply in the country. However, the GenCos are still concerned that the DisCos debt profile, poor financial positions, lack of detailed payment plan for the energy purchased, and a mutually agreed penalty for default may affect its success as was the case in the PPA with NBET.

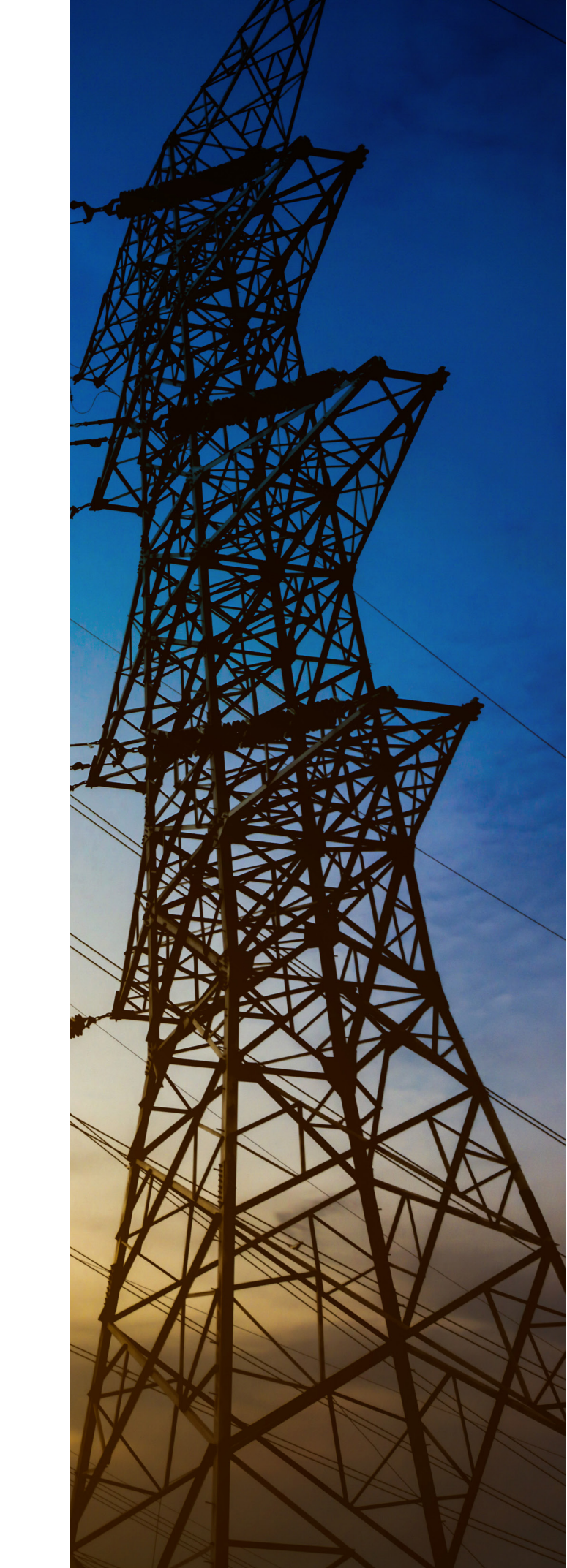
Norwegian renewable energy investment firm signs a US\$6.5 million solar energy deal in Nigeria²

A Norwegian renewable energy investment firm, Empower New Energy, in collaboration with Powercell Limited, a clean energy Nigerian company, has signed a US\$6.5 million solar energy deal in Lagos. The project, which is aimed at promoting the use of clean energy in Nigeria to reduce pollution, is the largest solar investment deal signed by Empower New Energy in Nigeria.

The Lagos State Commissioner for Energy, during the signing ceremony, noted that the State plans to create a sustainable electricity market to reduce the reliance on fossil fuels and boost the use of renewable energy. He also noted that Lagos State government has a set target of generating 1,000 Megawatts (MW) of electricity using solar sources by 2030.

Norway's Minister of Foreign Affairs said the development and steps taken by the Lagos government would push energy companies towards clean technology and attract green investments.

1. [Nigeria: Non-buoyancy of DisCos Pose Serious Challenge in the Implementation of Bilateral Power Contracts – The Electricity Hub](#)
2. [Norwegian Renewable Energy Firm Signs \\$6.5 Million Solar Energy Deal in Lagos](#)



Many State Governments have started taking steps to attract the required investment to boost electricity supply in their States, following the decentralisation of power generation, through the amendment to the Nigerian constitution. We therefore expect to see more private partnerships in this space.

Nigeria commences the construction of the first solar-cell factory in West Africa³

The National Agency for Science and Engineering Infrastructure (NASENI or “the Agency”) has announced that it has commenced the construction of the first solar cell production factory in Gora, Nasarawa. The factory, which is first of its kind in West Africa, aligns with Nigeria’s energy transition plan.

The new construction will expand an older factory, which had been used to produce solar panels and will include four new additional sections to the current factory. It is also expected to accelerate economy development of the surrounding rural communities.

Universal Energy Facility (UEF) to provide grant to Renewable Energy Providers in Nigeria⁴

The UEF, a financing facility managed by Sustainable Energy for All, announced that it will be giving out grants to renewable energy companies as part of its Stand-Alone Solar for Productive Use programme in Nigeria.

One of the key conditions for the grant is that the solar projects of eligible companies should connect businesses to affordable, clean and reliable electricity sources. The plan, according to UEF, is to connect approximately 3,500 businesses, markets, shopping malls, cold-storage facilities, clinics, schools, and other economic and community infrastructure to affordable and clean electricity. These projects under the grant will cover most States of the Federation, and they are expected to reduce the need for the selected businesses and services to rely on fossil fuel generators as their source of power and contribute to Nigeria’s Energy Transition Plan.

Nigeria government signals the return of coal exploration⁵

The Federal Government (FG) has indicated the return of coal mining in the country by putting up five coal blocks in Enugu for public bidding. In a recent invitation for expression of interest issued by the Bureau of Public Enterprises (BPE), the following five (5) coal blocks located in Enugu State are up for public bid - Amasiado coal block, Onyeama coal block, Okpara coal block, Inyi coal block and the Agwasi-Azagba coal block.

BPE also stated that out of nine (9) available coal blocks being held by the Nigerian Coal Corporation, three (3)

[3. Nigeria Kicks-off Construction of First Solar-Cell Factory in West Africa – The Electricity Hub](#)

[4. Universal Energy to Launch Grants for Solar Energy](#)

[5. Nigerian Government Signals the Return of Coal Exploration Despite 2060 Pledge – The Electricity Hub](#)

of them have already been taken and one is in use for a “Coal to Power” project by the Ministry of Mines and Steel Development.

Nigeria remains a severely energy-poor country with unreliable power supply. The FG is currently implementing several policies to improve power production and distribution in the country, including decentralisation of power generation and bilateral power contracts. The recent move to resuscitate coal mining, may however, undermine Nigeria’s pledge of net zero carbon emission by 2060. Therefore, it will be interesting to see how the FG intends to marry its plans of improving power supply in the country and its net-zero carbon emission commitments.



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