

The Role of the Bulk Trader in the Transitional Electricity Market and Off-take Security

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Outline

- Background
- Bulk trader in the Transitional Electricity Market
- Off-take security
- Near term PPAs & vesting contracts
- Bulk trader and transmission arrangements
- Banks and bulk trader related transactions

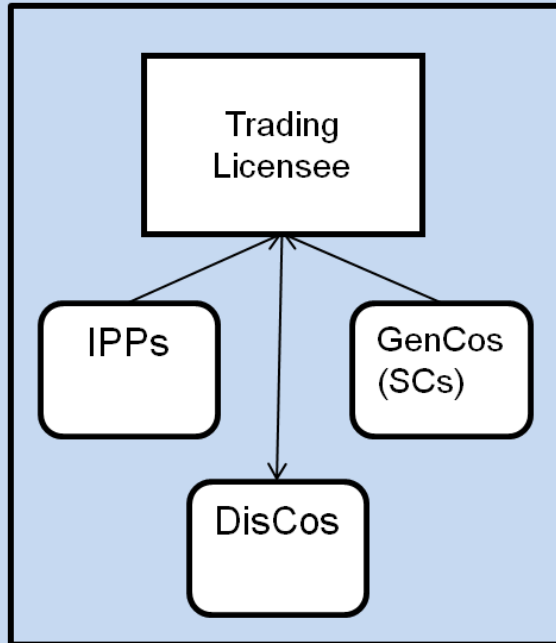
Background

- Mandated by 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 IPPs and from the successor generation companies
- New entity incorporated to act as the bulk trader: Nigeria Bulk Electricity Trading Plc (NBET)
- Securitization required; consistent payment default by DisCos due to:
 - low tariffs, inefficient operations and poor collections

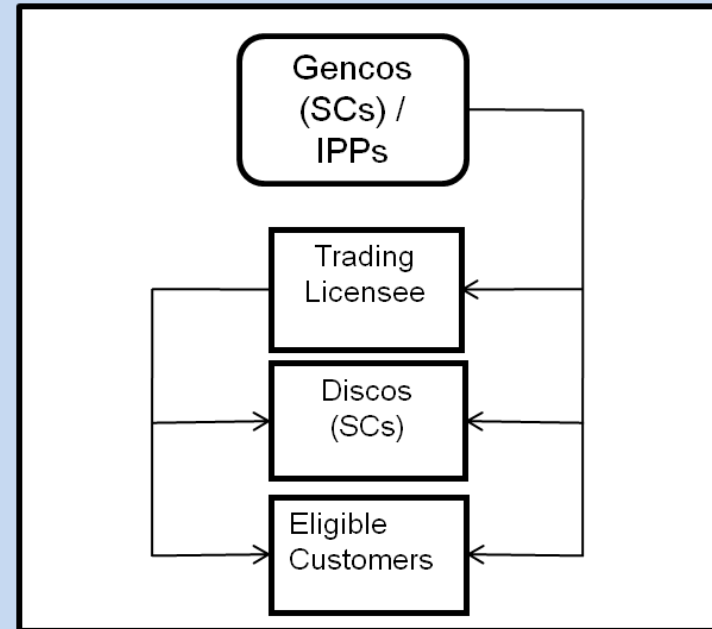
Trading Arrangement Provision in EPSR Act 2005

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1. **Section 25 (a):** Single Buyer Model

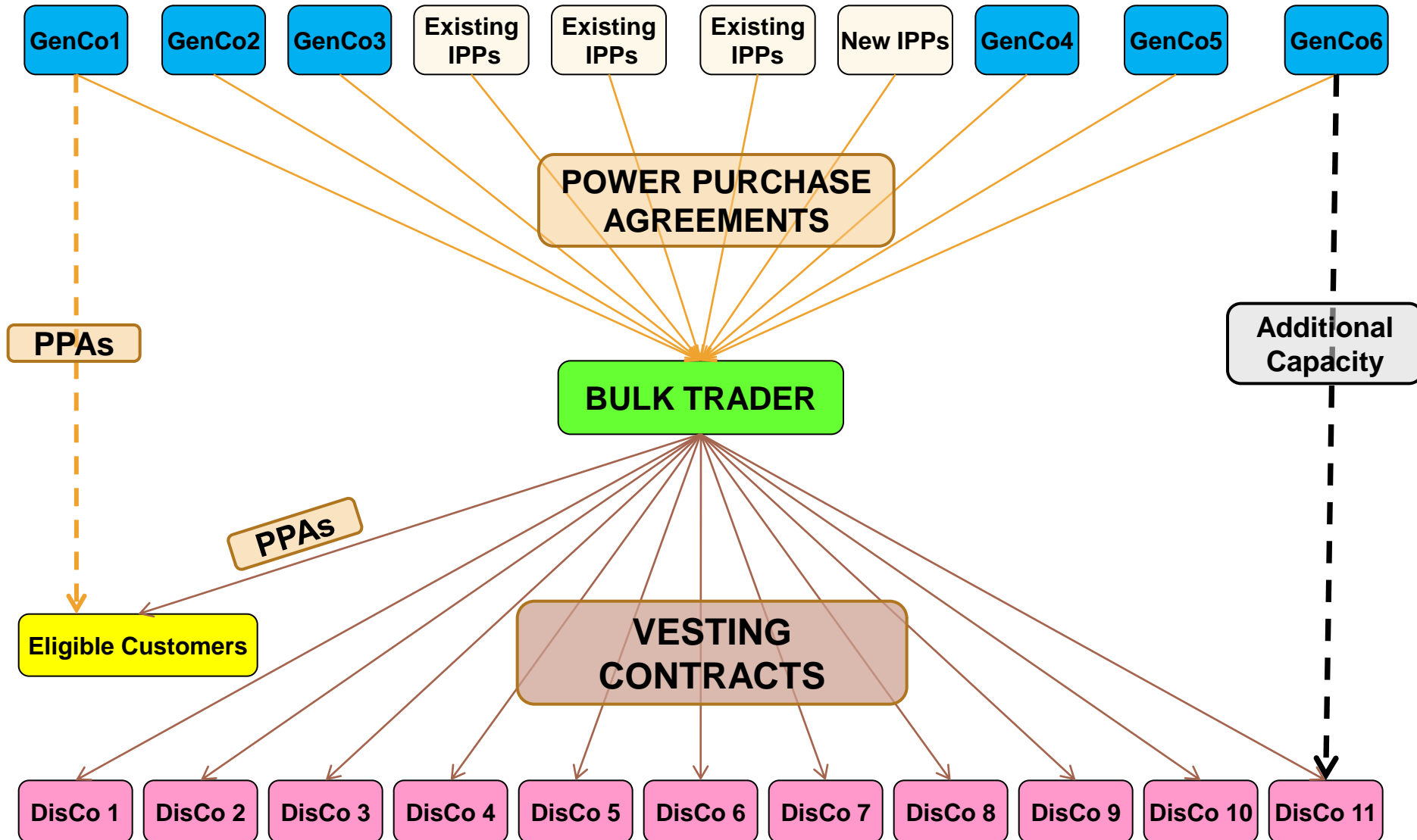
2. **Section 25 (c):** Bilateral Model

Bulk Trader in the Transitional Electricity Market

- Act as the FGN's agent in power purchase agreement guarantees
- Execute PPAs with to-be privatised successor generation companies
- Assume PHCN obligations in existing PPAs with IPPs (outstanding liabilities transferred to NELMCO)
- Negotiate and enter into PPAs with potential IPPs
- Execute vesting contracts with distribution companies
- Execute PPAs with eligible customers
- Conduct competitive procurement of capacity & energy

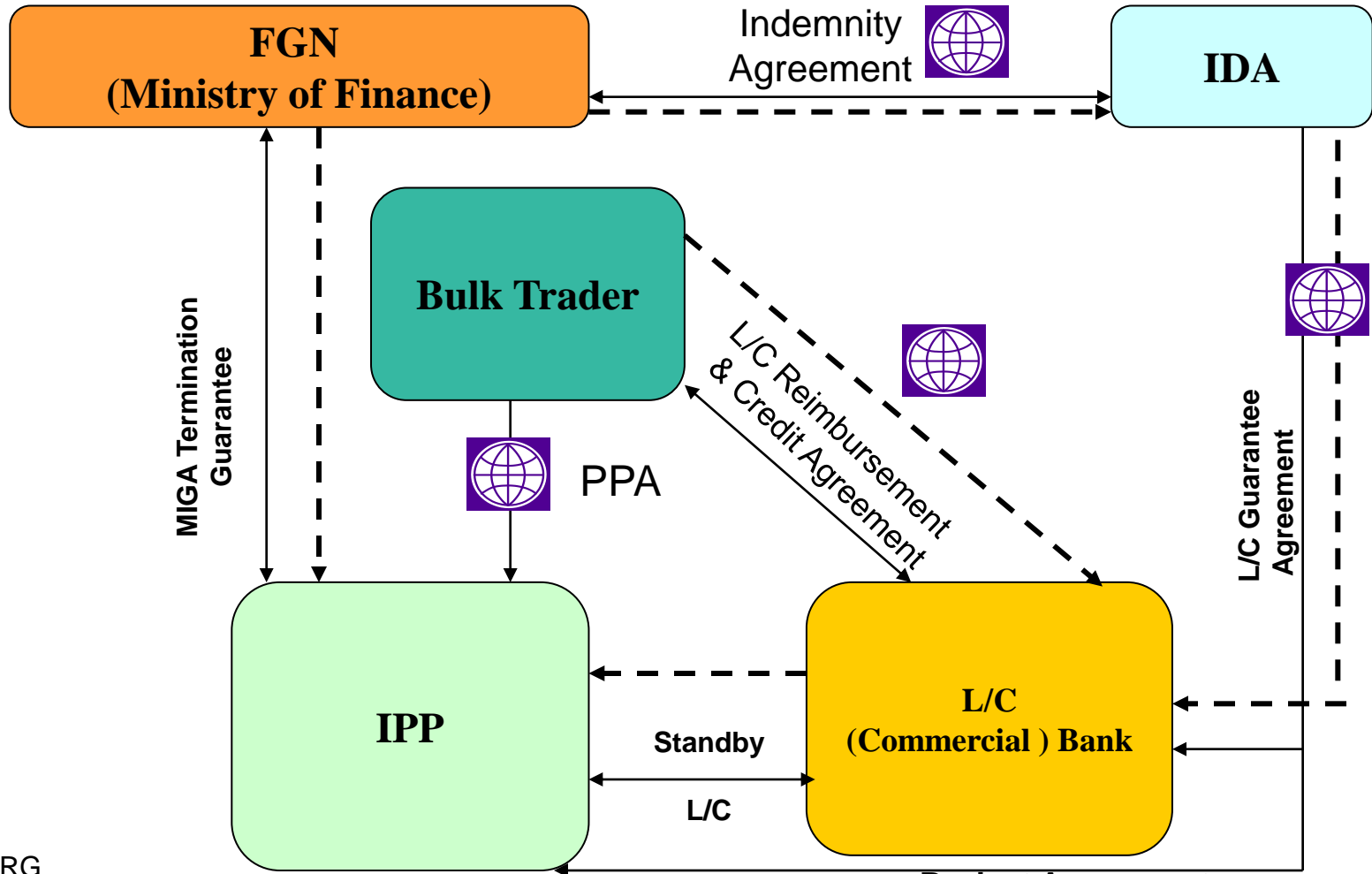
Transitional Market Trading Arrangement

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

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 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

Near term PPAs and Vesting Contracts

- 14 projects nominated by the Ministry of Finance to the World Bank under the PRG program
- PPAs to be executed with GenCos and qualified projects
- Payment and certain regulatory risks to be covered by the PRG
- Termination risks to be covered by MIGA and/or other insurance institutions
- Agreement clauses that allow for novation of PPAs from BT to DisCos
- Prices benchmarked to MYTO, all sponsors to submit to open book review of project cost
- Price indexation of some portion of fixed costs to USD
- All sales by the bulk trader to either DisCos or eligible customers to be supported by a liquid guarantee instrument, preferable an L/C

Bulk Trader and Transmission Contracts

Option A:

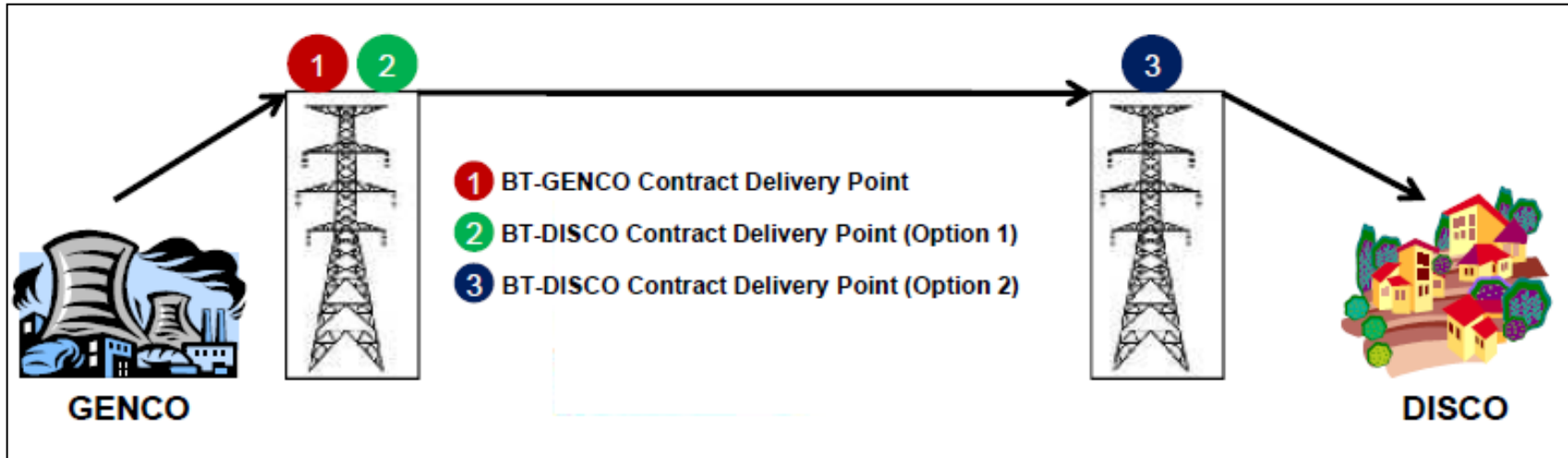
- BT buys from GenCo at the busbar of the plant and sells to DisCo at the injection substation of the DisCo

1 3 BT assumes Transmission Risk and signs the TUOS Agreement with TSP

Option B:

- BT buys from GenCo and sells to DisCo at the busbar of the plant.

1 2 DISCO assumes Transmission Risk and signs the TUOS Agreement with TSP



Option A is expected to provide greater investor comfort

Banks and Bulk Trader Related Transactions

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- Project finance for new projects and acquisitions of PHCN successor GenCos
- Issuance of L/C as part of the PRG structure for PPAs
- Issuance of L/Cs on behalf of the DisCos i.f.o. of the Bulk trader for vesting contracts
- Capacity building
 - Establish power desks to provide coverage on power deals and trades with strong in-house quantitative, technical and legal skills

THANK YOU