

PD-ABY-744

**QUARTERLY REPORT  
AND PROJECT COMPLETION REPORT**

January to April 2003

**NIGERIA ENERGY SECTOR REFORM PROJECT**

Task Order No. 816, Contract LAG-I-00-98-00006-00

Prepared for



May 2003

Prepared by

 **Nexant**

23865.816.013

<u>Contents</u>	<u>Page</u>
1 Introduction	2
2 Activities This Quarter	2
2.1 Progress on Project Activities	2
2.2 Nexant Advisors and Roles	3
2.3 Important Meetings And Events	4
2.4 Significant Decisions Made	5
2.5 Implementation Issues	5
2.6 Milestones Reached and Impacts Achieved	5
3 Work Plan Status	6
3.1 Budget and Spending	6
3.2 Cash Flow Status	7
4 Coordination with Other USAID Implementers and with Other Donors	7
5 Project Completion Report	8
5.1 Summary of Project Activities	8
5.2 Design of Nigeria's Electricity Market Reform Program	10
5.3 Manual for NEPA Contracts Management	10
5.4 Tools and Processes for NEPA Financial Management	11
5.5 TA on Oil and Gas Policy	11
5.6 Plan for the NEPA Corporate Planning Unit	11
5.7 Review of GoN Capital Projects	12
5.8 Project Management Activities	12
5.9 Conclusion and Recommendations	12

## 1 Introduction

The objective of the Nigeria Energy Sector Reform Project is to contribute to the development of an economically viable and environmentally sound energy sector with significant private sector participation that will provide effective energy services to the public and to industry. Nexant was chosen by USAID to implement the program, which began in January 2002.

Project activities focus on policy development and management consulting in the electricity, oil, natural gas and rural energy services areas. The target recipients of the TA include the following agencies: the National Electric Power Authority, the Ministry of Power and Steel, the Bureau of Public Enterprises, the Economic Policy Coordinating Committee Secretariat in the Office of the Vice President, the Petroleum Product Pricing Regulatory Committee and the Office of the President for Petroleum Policy Matters. The project has been enthusiastically received by all of the counterpart agencies.

This report serves as both the Quarterly Report for the first quarter 2003, and also the final administrative report for the Task Order, which expired April 30, 2003. This report contains the following information in compliance with the Task Order terms of reference:

- Section 2 summarizes project activities conducted during the period. The following information is provided:
  - Description of progress on major implementation steps
  - Identification of professionals involved in rendering assistance and their roles
  - Description of key discussions and interactions with counterparts
  - List of significant decisions made
  - Description of implementation problems and proposed action to address such problems
  - Analysis of impacts achieved as a result of the project
- Section 3 presents the status of the work plan, timetable and budget.
- Section 4 discusses coordination with other USAID implementers and with other donors.
- Section 5 provides the project completion report.

## 2 Activities This Quarter

### 2.1 Progress on Project Activities

Nexant focused on the NEPA corporate restructuring activity during the first quarter 2003. The main tasks were:

- Collaborating with NEPA counterparts on the Restructuring Implementation Committee set up by the Managing Director of NEPA to liaise with Nexant.
- Coordinating with other stakeholders including BPE, World Bank and other consultants to NEPA and BPE.
- Completing the analysis of priority steps for corporate restructuring
- Delivering a workshop on *Implementing the Initial Phase Electricity Market in Nigeria* held in Abuja in February 2003.
- Preparing the final report on *Priority Reforms for the Transition Stage Electricity Market*, which was delivered to NEPA, USAID and other stakeholders in April 2003.

The Project Manager spent most of the period in Abuja to move the project forward and work closely with the NEPA restructuring project manager. The final trip for the other members of the project team was held in February. The team was not able to travel to Abuja in March and April due to a USAID-imposed travel restriction in the wake of international events. Despite the travel restriction, a high quality final report on the corporate restructuring activity was delivered on time. A workshop on the final report planned for April had to be cancelled, but this had only a relatively minor impact on the overall success of the activity. The need to cancel the workshop on the final report was discussed and agreed with USAID.

## 2.2 Nexant Advisors and Roles

The Nexant Team consists of the Project Manager, one administrative support person in the home office and four senior energy advisors. Over three-quarters of the time spent on the project has been in the field working with Nigerian counterparts. Table 1 shows travel date and purpose for each visit to Nigeria made by Nexant energy advisors during the quarter.

**Table 1: Travel Dates and Purposes for Nexant Advisors during First Quarter 2003**

Nexant Advisor	Purpose of Trip	Dates of Travel
Tom Simpson, Project Manager	Complete Nexant report on design of transition stage electricity market; work with NEPA and USAID.	Jan 6 to Apr 30
Martin Massy, Sr. Utility Specialist	Advise on NEPA corporate restructuring; work on final report.	Feb 4-15
John Banks, Sr. Business Mgmt.	Advise on NEPA corporate restructuring; work on final report.	Feb 11-22
Gulam Dhalla, Sr. Business Mgmt.	Advise on NEPA corporate restructuring; work on final report.	Feb 8-22 Apr 21-30 *

\* Mr. Dhalla's trip of April 21-30 did not require an exemption from the USAID travel restriction. The trip was cleared under a separate personal services contract between Mr. Dhalla and WB. This arrangement was approved by USAID.

## 2.3 Important Meetings And Events

Table 2 lists the parties involved, the topics discussed and the decisions made for the most important meetings conducted during the quarter.

**Table 2: List of Key Meetings**

Date	Agency	Description of Meeting
Jan 31	NEPA	Meeting with NEPA Managing Director Joseph Makoju to discuss NEPA reorganization options and Nexant work plans.
Feb 17	NEPA	Briefing to NEPA MD on Nexant restructuring recommendations. At the request of the MD, Nexant provided a presentation for the MD to give at the WB roundtable on NEPA privatization to be held the following week in Washington, DC.
Feb 20	NEPA	Workshop on "Implementing the Initial Phase Electricity Market in Nigeria" for 70+ managers from NEPA. Nexant presented its recommendations for the transition stage electricity market design in the following areas: market rules; charges; cash flows; NEPA reorganization plan; and financial restructuring plan.
Mar 5	NEPA	Half-day briefing to NEPA MD, Executive Directors and General Managers on project recommendations.
Mar 10	NEPA, BPE	Coordination meeting with BPE, NEPA MD and EDs to review PwC and Nexant-USAID TA programs to date, and to discuss future TA.
Mar 21	World Bank	Meeting with Ms. Wendy Hughes and Ms. June Wu to discuss coordination and brief WB on Nexant's recommendations. WB has two related projects: 1) Privatization Support Credit to BPE and 2) Transmission Development Project.
Apr 10	NEPA	Meeting of the NEPA Restructuring Implementation Team to discuss the Nexant final report.
Apr 15	NEPA	Nexant delivered 100 copies of its report <i>Priority Reforms for the Nigerian Electricity Market</i> to the MD of NEPA. The MD then distributed the report to the NEPA Executive Directors, the NEPA Board of Directors, the Director General of BPE and the Minister of Power and Steel.
Apr 24	USAID	Nexant Exit Briefing with USAID/Nigeria Mission Director Ms. Dawn Liberi, SO2 Team Leader Ms. Ravi Aulakh, CTO Mr. Frank Okafor and other members of the USAID/Nigeria Team.
Apr 15 to 30	NEPA, BPE	The Nexant PM conducted a series of one-on-one and small group briefings on the Nexant report to Nigerian stakeholders and the NEPA Restructuring Set-up Teams.

## 2.4 Significant Decisions Made

The Government made the following significant decisions:

- The progressive *Electric Power Sector Reform Bill of 2003* passed both houses of the Nigerian Congress in March 2003 and awaits the President's signature. Although the Bill is watered down from the original draft submitted by the US law firm Cameron McKenna, it still provides a schedule and process for the restructuring and privatization of NEPA and the formation of the National Electricity Regulatory Commission. The passage of the Bill marks a critical turning point in the transition from state ownership to competition and privatization in the electric sector.
- A new NEPA Board of Directors was appointed in January 2003. The make-up of the Board reflects a power shift towards BPE and the privatization agenda. Two BPE officials were appointed to the Board, and the Board reports to the National Council on Privatization, *not* the Minister of Power and Steel. The new Chairman of the Board is an outspoken advocate of restructuring and privatization. He has appointed a Restructuring Standing Committee of the Board, which has established Set-up Teams for the DisCos, GenCos and TransysCo.

With these new developments, electric sector reform is expected to reach full steam for the remainder of 2003 with real progress on the unbundling of TransysCo from NEPA and the set-up of the transition stage wholesale electricity market.

## 2.5 Implementation Issues

There were no major problem areas during the entire course of the project. All of the project activities received enthusiastic support from Nigerian counterparts. The project was completed by April 30 as planned. The follow-on USAID-Nexant technical assistance project to implement the transition stage electricity market is now in progress under the separate USDOE Nigeria Electricity Sector Reform Task Order.

There was one significant constraint on the project at the end of the Task Order. On February 28, USAID issued a guideline restricting country clearance to essential travelers during March and April. The guideline prohibited Nexant from working in Nigeria aside from the Project Manager, who remained in Abuja for the duration of the restricted period.

As a result of the travel restriction, a planned workshop on the Nexant Final Report had to be scrapped. The Nexant PM subsequently conducted a round of one-on-one meetings with key electric sector decision-makers to raise awareness about the Nexant recommendations. Awareness building activities are continuing under the current USDOE-Nexant Task Order, with a presentation to the NEPA Board and an informal workshop on market operations in the planning stage. Nexant expects to be asked to present its recommendations at the next meeting of the WB roundtable on NEPA privatization later in the summer.

## 2.6 Milestones Reached and Impacts Achieved

The TA achieved the following impacts on policy and behavior during the quarter:

- The NEPA Restructuring Implementation Committee in consultation with Nexant completed its analysis and recommendations on priority steps for restructuring. The final report was delivered to NEPA, BPE and the Ministry of Power and Steel in April.
- Many of the members of the NEPA Restructuring Implementation Committee who worked directly with Nexant were subsequently recruited for the Set-up Teams for the New Business Units appointed by the Restructuring Standing Committee of the Board of Directors. They report that their work with Nexant has facilitated their present work on the Set-up Teams.
- Nexant has been asked by NEPA executive management to advise the TransysCo and DisCo Set-up teams in the coming months.
- Over 70 NEPA managers participated in a well-received workshop on priority electric sector reforms in February in Abuja.

The TA provided the following deliverables during the quarter:

- Final Report on *Priority Reforms for the Nigerian Electricity Market*
- One-day workshop on implementing the new electricity market
- On-the-job training and advice for counterparts on the NEPA Restructuring Implementation Committee
- Formal training on financial transactions and financial restructuring for the transition phase electricity market
- Regular reporting on project progress to the USAID CTO

## 3 Work Plan Status

The project scope of work has been completed in strict accordance with the agreed work plan. All required deliverables have been delivered to USAID.

### 3.1 Budget and Spending

Table 3 shows the project budget by activity.

**Table 3: Project Budget by Activity**

Activity	Budget	% Total
1. Electricity Market Reform	\$628,000	43%
2. NEPA Contract Management	\$296,000	20%
3. NEPA Financial Management	\$183,000	13%

Activity	Budget	% Total
4. Oil and Gas Activities	\$183,000	13%
5. NEPA Corporate Strategy Organization	\$80,000	6%
6. GoN Capital Projects Review	\$80,000	6%
Totals	\$1,450,000	100%

### 3.2 Cash Flow Status

Estimated spending as of project closeout on April 30 is \$1,400,000 out of the \$1,450,000 ceiling price. Approximately \$50,000, or 3% of the ceiling price, was not spent primarily as a result of the USAID travel restriction covering March and April, which forced a cut back on planned expenditures for field activities and associated travel expenses and workshop costs.

Of the total amount spent, about \$1,050,000 (75%) was spent on labor and about \$350,000 (25%) was spent on other direct costs and general and administrative costs.

Nexant expects to submit the final voucher for the project to USAID/Nigeria in June.

## 4 Coordination with Other USAID Implementers and with Other Donors

The following summarizes Nexant's coordination with other USAID implementers and with other donor agencies:

- World Bank – Nexant communicates regularly with WB principals for electricity reforms Ms. Wendy Hughes (Senior Energy Specialist, Country Office) and Ms. June Wu (Transmission Development Project Task Team Leader).
- USDOE – Nexant is now working directly with USDOE under the follow-on task order to implement electricity reforms.
- International Institute for Education (IIE) – The Nexant PM and the IIE PM communicate regularly on IIE's plans for the energy training program. Nexant plans to attend the discussion of NEPA restructuring at IIE's Regulatory Workshop in Abuja in May.
- USEA – The Nexant PM is in contact with Mr. Assis and Mr. Hammond, who manage the USEA Utility Partnership Program. Recently, Nexant met with the USEA team of consultants during their trip to Abuja May 5-10. Nexant and USEA have exchanged ideas about a potential study tour for Nigerian decision-makers to visit electricity markets in Europe that have recently been privatized.

## 5 Project Completion Report

### 5.1 Summary of Project Activities

The Nigeria Energy Sector Reform Project was initiated in January 2002 with an inception visit conducted by Mr. Tom Simpson, the Nexant PM, and Dr. Charles Ebinger, Nexant Executive VP for the utility restructuring and privatization practice. The inception trip was used to prepare the *Project Inception Report* (Nexant, January 2002) containing the work plan for the Task Order, the first deliverable under the terms of the Task Order.

In July, the work plan was revised through discussions with USAID and Nigerian counterparts and the budget was revised accordingly, within the approved Task Order ceiling price. A portion of the scope of work covering TA for the oil and gas sectors was moved to a separate project under the USAID-DOE Interagency Agreement. In September, USAID obligated supplemental funding to increase the project budget to the approved Task Order ceiling price. The supplemental funding was targeted to achieve electric sector reform.

The work plan identified the following priority activities in the electricity sector:

- Recommendations on implementing the market structure envisioned in the Electric Sector Reform Bill
- NEPA financial planning, budgeting and transfer pricing regime
- Establishing the NEPA Corporate Planning and Strategy Division
- Set up of the NEPA division to manage and monitor contracts

The work plan identified the following priority activities in the oil and gas sector:

- An examination of the impact of the current gas fiscal regime on gas exploration, production, transportation and the development of downstream gas markets
- Advice on oil and gas policy and pricing to the Presidential Advisor on Petroleum Matters and the Petroleum Product Pricing Regulatory Committee
- A “train the trainers” TA for public outreach on commodity price increases (note: this activity was subsequently spun out of the Nexant work plan into a separate Task Order for IIE under the IIE-USDOE Work Order)
- Advice on a common carrier regulatory regime and institutional arrangements for pipeline regulation

All Nexant energy activities have been completed in accordance with the work plan, including the oil and gas activities that were spun off under the separate USDOE-Nexant Task Order.

Over the course of the project, the Nexant Team evaluated the need for TA in several other areas, in particular rural energy services, energy regulation and electricity tariffs. The team was informed that the Bureau of Public Enterprises was planning extensive consultancies to develop a national rural energy policy and plan, to set up the National Electricity Regulatory Commission and to recommend a national electricity tariff strategy, all under the WB Privatization Support Credit. Accordingly, in order to avoid duplication of effort the Nexant workplan omitted TA in these areas with USAID's concurrence.

Besides the TA program covered in the project work plan, Nexant conducted the following additional significant activities:

- 1) Nexant submitted a report to the Bureau of Public Enterprises providing detailed comments on the *Blueprint for Implementation of Corporate Restructuring of the Nigerian Electricity Sector* (PwC, July 2002).
- 2) At the request of USAID/Nigeria, Nexant provided a senior budget analyst to assist the GoN Budget Monitoring Unit of the President's Office on line item budget requests for transmission infrastructure.

The following additional requirements of the Task Order were fulfilled:

- The Nexant PM provided regular written and in-person Progress and Status Reports to USAID and other stakeholders.
- As detailed below, each Nexant activity included training opportunities for Nigerian counterparts such as seminars, workshops and on-the-job training.
- The Nexant PM delivered a completion briefing to USAID/Nigeria on April 24.
- No equipment was procured under the task order.
- No environmental assessments were required during the course of the task order.

Over the course of the Task Order, the Nexant Team achieved the following major milestones:

- Delivered detailed recommendations on the design of the transition stage electricity market in the report *Priority Reforms for the Nigerian Electricity Market* (Nexant, April 2003);
- Provided TA to NEPA on managing IPP contracts, and delivered a comprehensive *Contract Management Manual and Procedures* (Nexant, December 2002);
- Recommended enhancements to NEPA's financial management functions covering budgeting, cash management and wholesale market pricing;
- Provided NEPA with new spreadsheet tools for wholesale market pricing, budgeting and cash management.
- Assisted NEPA to set-up the Corporate Planning and Strategy Department, which will take the lead on corporate restructuring.

The following sections recap highlights of the project over the past 16 months.

## 5.2 Design of Nigeria's Electricity Market Reform Program

This TA designed priority reforms for the restructured electricity market during the pre-privatized stage of development. The activity produced the following deliverables:

- **Final Report** – The project final report on *Priority Reforms for the Nigerian Electricity Market* was delivered to NEPA, the Ministry of Power and Steel and BPE in mid-April. The report covers market rules, market pricing, functional reorganization and financial restructuring. The study is a milestone for the Nigerian electricity industry and will serve as the basic design for implementation of the transitional wholesale market. The market design reflects best international practices and takes into account 1) the unique financial, operational and institutional constraints on NEPA and 2) the provisions of the Electric Power Sector Reform Bill of 2003. The report is timely, coming so close on the heels of the passage of the Bill.
- **Transfer Pricing Model** – Nexant delivered a groundbreaking spreadsheet model that can be used to forecast the prices used for wholesale market transactions during the transition stage electricity market.
- **Knowledge transfer** – Nexant provided many days of interaction, training and workshops for Nigerian counterparts on the NEPA Restructuring Implementation Committee, which was set up by the NEPA Managing Director especially for the USAID program. These individuals now lead the change process company-wide.
- **Buy-in from Nigerian Decision-makers** – Nexant has worked closely with NEPA, WB and BPE to gain buy-in on the project. The report should receive additional attention in May and June when Nexant will provide briefings to the NEPA Board of Directors, executive management and the NBU Set-up Teams on transition stage market operations.
- **Workshop** – Nexant delivered a management workshop on priority reforms for the electricity market to over 70 NEPA managers in February 2003.

## 5.3 Manual for NEPA Contracts Management

The NEPA Managing Director asked USAID to provide TA for managing contracts at a time when NEPA is negotiating several large-scale power purchase contracts with independent power producers. The capability for NEPA and its Successor Companies to negotiate and manage commercial contracts will be crucial for the future success of the privatization program.

Nexant delivered a comprehensive *Contract Management Manual and Procedures* in December 2002. The TA also included two three-day workshops for 57 NEPA staff from throughout the organization, as well as a series of targeted one-on-one and small group training sessions with NEPA counterparts.

#### 5.4 Tools and Processes for NEPA Financial Management

The objective of this activity was to develop new processes at NEPA for financial planning, budgeting and transfer pricing to establish commercial relationships between generation, transmission and distribution business units as a precursor to eventual privatization. The TA had the following components:

- **Pricing for Electricity Market Transactions** – Nexant designed the pricing system that will be used between the business units during the pre-privatized stage of market development. The deliverables for this task include a description of the pricing system in the project final report, a spreadsheet model, a user's manual and targeted training on the model.
- **Budget System** – At the request of the NEPA Managing Director, Nexant delivered a report on Budget Procedures and Guidelines along with spreadsheet models for energy forecasting, revenue budgeting and operating expenditure budgeting. Nexant and NEPA jointly presented the new procedures and models to all senior staff in NEPA Finance and Accounts. These were subsequently adopted company-wide and are now in use for the 2003 budgets.
- **Cash Management** – Nexant delivered a final report on NEPA Cash Management: Transitional Arrangements highlighting current weaknesses in cash management and recommending measures to strengthen financial management and improve liquidity. Nexant also delivered a cash flow spreadsheet model and training to NEPA staff on the use of the model.
- **NEPA Financial Review** – At the request of the World Bank, USAID-Nexant provided a financial review of NEPA as input to the WB Transmission Development Project Loan to GoN. Nexant's analysis was a key factor in the WB's decision to approve the disbursement of the loan.

#### 5.5 TA on Oil and Gas Policy

Nexant conducted fieldwork for the following oil and gas activities: a manual for oil and gas transportation and storage; a brochure for investors in the natural gas sector; advice on petroleum product pricing; a cost analysis of petroleum product transportation; and a review of the natural gas tax regime. The deliverables for these TA activities were subsequently completed under a separate oil and gas task order spun off under the USDOE Inter-agency Agreement. One of the gas activities, the gas taxation TA, was completed under the USAID Task Order with the delivery of a seminar to the Office of the Vice President Economic Policy Coordinating Committee on international examples of incentives for gas exploration.

#### 5.6 Plan for the NEPA Corporate Planning Unit

Nexant analyzed the corporate planning function at NEPA and recommended enhancements to the newly formed Corporate Planning & Strategy Department. The recommendations were delivered at a workshop on the functions and job descriptions for the General Manager and

Assistant GMs. The TA resulted in refinements to the department's mission statement and the roles of the managers. The TA was strategic since Corporate Planning will play a key role in the upcoming market reforms.

### **5.7 Review of GoN Capital Projects**

In response to a fast-track request from USAID/Nigeria, Nexant provided a senior budget analyst to assist the GoN Budget Monitoring Unit of the President's Office. Nexant prepared spending clearances for line item budget requests for transmission infrastructure and presented them to the GoN for decision-making.

### **5.8 Project Management Activities**

The Nexant Project Manager fulfilled the following responsibilities:

- Led a team of 12 technical experts from Nexant.
- Assisted USAID to design its energy activities.
- Coordinated with USAID/Nigeria, USAID Washington, USDOE and World Bank.
- Assisted USAID contractors IIE and USEA to design and implement their programs in energy training and the NEPA-Georgia Power utility partnership.
- Provided input to USAID/Nigeria on the Results Framework.
- Provided regular status briefers in accordance with the terms of the Task Order.
- Kept the USAID/Nigeria CTO informed of key issues and progress.
- Administered logistics, project planning, invoicing, performance monitoring, staffing and other requirements to keep the project moving.
- Presented a project completion briefing to USAID/Nigeria in April 2003.

### **5.9 Conclusion and Recommendations**

USAID's work in the Nigerian energy sector dating back to June 1999 has made a difference especially for the electricity sector, which is on the brink of major changes that will impact the sustainability of the sector for years to come. In 1999, NEPA had barely 1,500 MW in operation and the utility was badly mismanaged. Today, the power supply has more than doubled and concrete plans are underway to restructure and privatize the electricity sector to mobilize investment and private initiative.

The Nigeria Energy Sector Reform Program has been the driver for several key improvements at NEPA. NEPA functions for contracts management, corporate planning, budgeting, cash management and transfer pricing have been enhanced in line with international best practices. These are all key functions that will support the success of the upcoming market reforms and privatization program. The USAID-Nexant report on *Priority Reforms for the Nigerian*

*Electricity Market* is a milestone for the Nigerian electricity industry and will serve as the basic design for implementation of the transitional wholesale market during the pre-privatized stage.

The USAID-Nexant technical assistance program to the GoN on electricity sector reforms has an unmatched track record among the international donor agencies. At present and for the coming months, it is the only TA program of its kind on the ground. It is critical for Nigerian decision-makers to continue to have the benefit of USAID's international experience especially now that the passage of the Electricity Reform Bill has created momentum for real changes.

A critical window is open for USAID's vital and uniquely effective technical assistance to NEPA. In response, USAID will provide TA through yearend 2003 for restructuring implementation activities following up the current work. This new TA will be delivered in two segments, a new Task Order for May-June under the USDOE Inter-Agency Agreement and a new task order through yearend 2003 under the USAID EGAT/EIT/E Energy IQC.