Privatisation of PHCN is fraud - electricity union

Author : Naijiant

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The National Union of Electricity Employees has claimed that the privatisation of power supply in Nigeria is a fraud. The fraud included handing over 200bn naira (about $1bn) of public funds to the private sector.

General Secretary of the union Joe Ajaero said: "We want to say, as a union that the sham called privatization should be revisited. If privatisation, as we were told, was to bring us heaven-on-earth elderado, and it has not done that, why should we insist on it?

Of course, our position as NUEE, has been no to privatization, especially given that we are an underdeveloped economy. It is the function of the state to provide power.

Even the so called privatisation, you can see that even this year alone, between January and now, they have even given the so called private sector over N200 billion. So, why fund them if you say the electricity is in the hands of the private sector? That brings you to the point of the fraud on who owns them.

Why would you sell your house to somebody and you still give him money to maintain it? So, it's a fraud."

The fraud of power privatisation was doomed for failure from the onset - as this article from 2011 demonstrated.

Power to the people

By CIC Old Boy
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In a true democracy, power should reside with the people and I have long held the view that Nigeria is not a true democracy. But I want to concentrate on a different kind of power that Nigerians also do not have much access to – electricity.

In a previous offering, I talked about another basic necessity of life – water. While water is more critical to human existence than electricity, Nigeria's development is being hindered by inadequate power supply. Several regimes have made all manner of pronouncements about tackling this issue, but sadly for Nigeria, we can't generate electricity on hot air alone.

During the presidential election debate on the NN24 channel hosted by the fragrant Kadaria Ahmed, which President Goodluck Jonathan ducked out of taking part, all three candidates, Muhammadu Buhari, Nuhu Ribadu and Ibrahim Shekerau kept repeating the same answers to the power supply question. They all followed what passes for conventional wisdom and wanted to invite the private sector to solve the problem. At one point Ahmed told them that they all seemed to be offering the same solutions as the current regime.

The Jonathan administration – a continuation of the Obasanjo regime by another name – claims their "power roadmap" is the way to go in improving access to electricity in Nigeria. The president's Special Adviser on Power, Barth Nnaji, in what looked like a back of an envelope calculation, claimed only 40% of Nigerians have access to electricity.

We all know how this access isn't constant, but it wasn't entirely clear if Nnaji's calculation of 40% included those occasions when the supply is so low that you struggle to see even though your light-bulb is switched on, known in local parlance as "half current".

This so-called "roadmap" started with Obasanjo's "reforms" of the power sector and seemed to have lost its way when a House of Representatives inquiry claimed that about $15bn was spent on a raft of allegedly fictitious projects designed to improve power supply, but ended up in private pockets. After a lot of finger-pointing, with power supply deteriorating, Jonathan has gone back to those "reforms". They essentially involve breaking up the previous state-owned monopoly into generation, transmission and distribution companies, and then selling them off to the private sector.

Those in favour of privatisation point at the explosion in mobile telephony in Nigeria as evidence of private sector success. But mobile telephones are an entirely different ball game from a critical public service like power supply. For starters, the current problem is down to chronic mismanagement, corruption and inadequate investment. There is little evidence that these three problems do not exist in the private sector, as the recent cases of large scale looting that went on some Nigerian banks can testify. In fact, there is strong evidence that privatisation increases those problems when former state-run monopolies become private monopolies, especially in an industry such as power supply where customer choice is limited (unlike with mobile phones).

Fragmenting the service is usually a recipe for disaster because a centralised service can be more efficient and less costly, with less layers of bureaucracy, while fragmentation can repeat the same inefficiencies at every level. The privatisation of British Rail, for example, involved creating a company to run the tracks and stations and different train operating companies for the rolling stock. The result was a more expensive and inefficient service, with higher fares, reduced services, and greater costs in terms of taxpayer subsidies. Railtrack, the company responsible for the tracks and stations, had to be taken back into public ownership when it went belly-up.

The sole purpose of a private company is the maximisation of profits and it will cut costs and even declare bankruptcy if profits fall. This was the story of Railtrack, and it was replicated when the maintenance of tracks was privatised on the London Underground network. The taxpayer had to step in when the company responsible, Metronet, went bust.

According to the NGO War on Want:
“Privatisation is encouraged on the grounds that it drives down costs through generating competition. However, essential services like water and electricity are often natural monopolies. A costly regulatory framework is needed to overcome this, which poor countries often cannot afford. The result in many cases is no competition and arbitrary pricing.”

Investigative journalist Greg Palast exposed the folly in privatising public utilities in his book “The Best Democracy Money Can Buy” with some of these nuggets of wisdom:

“As the economist J. M. Keynes said, “The mad rantings of men in authority often have their origins in the jottings of some forgotten professor of economics.” The professor in question here is Dr. Stephen Littlechild. In the 1970s, young Stephen, a Briton who studied at the University of Texas, cooked up a scheme to replace British government ownership of utilities with something almost every economist before him said simply violated all accepted theorems and plain common sense: a free market in electricity. The fact that a truly free market didn’t exist and cannot possibly work did not stop Britain’s woman in authority, Prime Minister Margaret Thatcher, from adopting it.

Palast went on to say:
“Thatcher then launched the England-Wales Power Pool, Professor Littlechild’s dream: an auction house for kilowatts that would set electricity prices for the nation based on free market principles. On paper, the Power Pool was an academic beauty to behold. The new, privately owned power plant owners would bid against each other every day, ruthlessly undercutting each other’s prices for the right to sell to England’s consumers, who would, as a result of this market competition, benefit from lower bills.

That was the theory. I can’t say whether the market scheme failed in minutes or days, but the Power Pool quickly became a playground for what the industry called “gaming”- bid manipulation techniques that allowed the deregulated companies to expertly vacuum the pockets of consumers. Electricity prices jumped and the owners of the power plants saw their investments grow in value by 300 percent and 400 percent virtually overnight.”

In a country like Britain with average pay around £25,000 a year, electricity companies can make huge profits by squeezing their customers until their pips squeak. But Nigeria with about 60% of the population without access to electricity, and up to 70% are said to be living below the poverty line, there is precious little evidence that a private company would invest the amounts required to spread access and be sure of maintaining the profit margin.

War on Want argues that: “In public service sectors like water and electricity the issue for developing countries is very much about access to services. In the rich countries it is extremely uncommon for communities not to have access to basic services at an affordable cost. Access to basic services at minimal or nil cost is considered a basic right and basic need by many development and progressive organisations.”

I don’t expect any private electricity supplier to improve access to the millions of Nigerians without power and to do so at prices they can afford. The evidence of success is limited to say the least.

According to War on Want:
“From most studies of the experience of privatisation in poor countries the evidence that poor people have substantially gained from privatisation ranges from unproven to a strong tendency against this assertion. Clearly some specific communities have gained from greater access to basic services but this is almost always countervailed by a tendency for those services to become chargeable or become more expensive. The idea of free or cheap access to services, if it is an initial aim is almost always dropped after privatisation.”

In South Africa, privatising power supply led to electricity being priced out of the reach of folks in the townships and power company officials being beaten up when they came to disconnect the supply of those who couldn’t afford to pay.

As Nigeria fully embraces the free market model in power supply, in Britain they are waking up to the reality that it is a failing model, as a report in the UK’s Guardian newspaper demonstrates.

Gas and electricity could be sold to consumers via a state-controlled body under radical reforms, proposed by the regulator Ofgem, which acknowledge that the decade-old free market approach to energy is no longer working.

Ofgem has also proposed setting minimum supply obligations on energy companies to make sure the lights don’t go out, in moves reminiscent of the new capital requirements that have been placed on banks to stop them going bust following the financial crisis.

Energy experts said that the regulator's proposals represented an "extraordinary volte-face". Ofgem has been one of the biggest advocates of a liberalised energy market, arguing that companies could be left to build enough new power stations and low-carbon forms of generation to guarantee energy supplies and reduce carbon emissions.

But only a fraction of the estimated £200bn investment needed by 2020 has been made, because volatile energy prices, and the short-term supply contracts that have characterised liberalisation, have made spending such huge sums too risky.

Alistair Buchanan, Ofgem's chief executive, conceded to the Guardian: "We live in a different energy world." It is understood he has revised his view on the market's ability to deliver the investment required, following the financial crisis.

Professor Dieter Helm, an expert in the economics of energy at the University of Oxford, said: "It's an extraordinary volte-face to admit that a liberalised market won't achieve its objectives. They have argued against intervention and said markets would engage with the issue of security of supply. The irony is incredible."

Ofgem warned that the UK could start to see a shortage of power plants and gas supplies by 2015 unless the way energy companies operate is overhauled.

Writing in the same newspaper, Terry Macalister claimed that the "free market has failed us".

The privatisation of the gas sector in 1986 and electricity in 1989 brought little in the way of strategic, long-term thinking and when the privatisation of the nuclear industry came in 1996 it swiftly brought problems, with British Energy having to be bailed out by the taxpayer within six years.

Now ministers once again are being called on to intervene because companies left to their own devices will not invest in new nuclear, wind and other low-carbon technologies. Having sucked profits out of the industry when government "interference" was a dirty word, they are – like the banks, railways and even car industry before them – keen to see the state step in and help them out with a greener and more secure agenda.

The Evening Standard's Andrew Neather claims privatised electricity isn't working in the UK because:
They were happier to sweat their assets (and fleece consumers) than to invest

I could post mountains of more evidence to demonstrate that free market "solutions" don't work in the energy sector, but it would take me all day. It is also pertinent to note that Vice President Namadi Sambo admitted that 80% of government companies that were privatised have failed.

Improving power supply in Nigeria is not rocket science. Professional management, investment in technology and expertise, and a highly motivated workforce – achievable through decent pay and working conditions are the basic requirements. There is no reason why this should be considered impossible in a country like Nigeria benefiting from high oil prices.

Spreading power to the people means keeping power supply in public institutions accountable to the people through their elected representatives and not private companies only accountable to their shareholders and interested in the profit margin. The president’s “power roadmap” is heading in the wrong direction and “good luck” is not enough to put it on the right track.