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TheAfrican CATALYST

Case Study

Azura-Edo power plant, Nigeria

Introduction

The Azura project came on-stream in 2018 and represents the first phase of what will ultimately be a power plant.

It is Nigeria's first fully privately financed IPP. It is also the first power generation project in Nigeria to receive World Bank Partial Risk Guarantee and Multilateral Investment Guarantee Agency (MIGA) support.

The Project consisting of **a 450MW open cycle gas-fired power plant** in Azura, Edo State was scheduled to come on-stream in 2018, representing the first phase of what will ultimately be a 1,500MW power plant. The project will deliver much needed electricity to almost 12 million people in Nigeria.

What made the project attractive to investors? (1/3)

- **World Class Developers**

The project's lead sponsor was Amaya Capital Limited, a principal investment firm that, over the past 8 years, has been at the cutting edge of market development in both the gas infrastructure sector and the IPP sector. Amaya's co-sponsors also included several African-focused infrastructure funds with exemplary track records in financing and developing large-scale infrastructure projects.

- **A strong Power Purchase Agreement (PPA)**

The project benefits from a strong, long term power purchase agreement (PPA), which has a classic tariff structure familiar to investors, split out into capacity and energy components.

- **Government support**

The Federal Government of Nigeria provides support to the project in the event of an early termination of the PPA through the mechanism of a put and call option agreement (PCOA).
At a relatively early stage in the deal, the FGN decided to adopt a put and call option structure, because it ensured that the FGN was always receiving something (the plant or the shares) in return for the amount it paid out – (early), as opposed to simply guaranteeing the payment by the offtaker of a termination sum, as is traditionally the case with PPAs.

What made the project attractive to investors? (2/3)

Credible Counterparties

- The project benefits from an engineering, procurement and construction (EPC) contract with a consortium comprised of Siemens, an internationally recognized and experienced contractor, and Julius Berger, Nigeria's preeminent construction company.
- It also has a long-term gas sales and purchase agreement with Nigerian Petroleum Development Company (NPDC), a subsidiary of the Nigerian National Petroleum Corporation (NNPC) and with Seplat, a leading independent oil and gas exploration and production company in Nigeria, listed on both the London (SEPL) and Nigerian (SEPLAT) stock exchanges in April 2014.
- The project's lead sponsor was Amaya Capital Limited, a principal investment firm that, over the past 8 years, has been at the cutting edge of market development in both the gas infrastructure sector and the IPP sector

What made the project attractive to investors? (3/3)

- **World Bank support**

The political risk support included:

- Political risk cover for the commercial debt through a MIGA insurance policy and an IBRD political risk guarantee. The MIGA policy covers transfer/inconvertibility, expropriation, war and civil disturbance and breach of contract by the host government and the IBRD political risk guarantee covers breach by either NBET of the PPA or FGN of the PCOA;
- Political risk cover for the equity in favour of the shareholder, Azura Edo Limited, through a MIGA equity policy; and
- An IBRD liquidity political risk guarantee which supports the letter of credit issued by JP Morgan on behalf of NBET to cover its tariff obligations under the PPA

On the funding side, International Finance Corporation is one of the lead DFI arrangers as well as being both a senior and mezzanine lender. OPIC also provided both senior and mezzanine debt.

Some Early challenges

- **Foreign exchange regulations**

The project company's sole source of income consists of the Naira-denominated receivables due to it under its power purchase agreement but in certain circumstances the current foreign exchange regulations would have prevented it from converting these Naira receivables to US dollars on the official currency markets, particularly where required to fund various US dollar offshore reserve accounts, which are a typical requirement in the financing of an IPP. To address these challenges, the lenders engaged with the Central Bank of Nigeria (CBN) who granted the dispensations requested by the lenders in order to facilitate the successful closing of this important project.

- **Gas risk allocation**

Another challenge facing the project was the overall gas (supply and transportation) risk – and how best to manage and allocate that risk.

  - The agreement reached with NBET is that, under the PPA, a failure in the gas supply will not in itself be treated as an availability event, i.e., capacity payments will not be payable during such period. However, a prolonged failure will allow the parties to terminate the PPA and, critically, allows for the project company to exercise its put option under the PCOA.
  - A supply failure which is brought about due to an issue with the public gas transportation system (rather than with the gas supplier) is treated in the same way as a 'gas supply' failure, other than that NBET has accepted that this is a 'government risk' and, as such, capacity payments would remain payable during this period.

How the project was financed (1/2)

The financing structure was complex, involving both senior and mezzanine debt from a consortium of 15 international and local banks. On the senior side, in addition to international commercial and development finance tranches, there was also a locally denominated tranche provided by a state liquidity fund rather than bilateral funding. The Sponsors contributed total equity of approximately US$190 million.

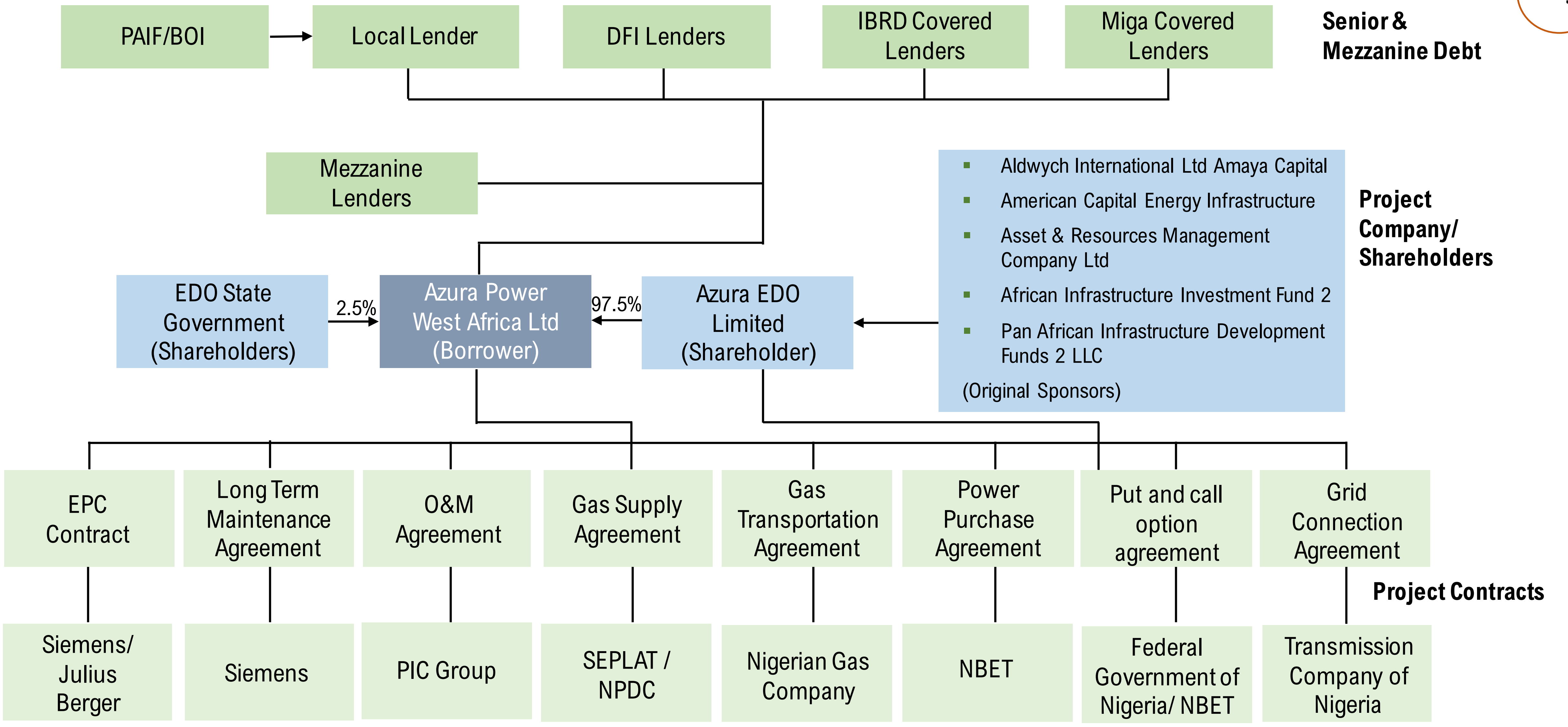
- **The PAIF tranche**
  - A significant portion of the debt financing was sourced from the Nigerian Power and Aviation Intervention Fund. The funds were provided subject to certain terms and conditions set out in an offer letter from PAIF.
  - FCMB, on behalf of the lenders, engaged with the CBN to clarify the terms of the offer letter and apply for certain dispensations in relation to the project.
- **The mezzanine financing**
  - Certain development finance institutions which are also senior lenders, provided a mezzanine tranche to the project.
  - Aside from the usual intercreditor issues, since the mezzanine lenders are DFIs, they have certain policy requirements which they need to have full control of and very thorough discussions were had between the senior and mezzanine lenders to agree on a highly bespoke list of entrenched rights available to the DFI mezzanine lenders on the transaction.

How the project was financed (2/2)

- **Gas sales agreement letter of credit**
  - The gas sales and purchase agreement (GSPA) required that the payment obligations of the project company be backed by a letter of credit (GSPA LC), issued by a bank with a minimum credit rating.
  - Normally such a letter of credit would have been procured by the equity providers through a form of collateral arrangement but in this case, it was provided by one of the lenders, Standard Chartered Bank, as part of the overall financing.

  - Given that the GSPA LC formed part of the overall financing, a highly bespoke intercreditor and project account's structure was designed to address the different scenarios, taking into account the different phases of the project (e.g., before and after project completion), when the GSPA LC might be drawn, fully or partially, and what the potential exposure of the other senior lenders in the project would be at relevant times.

Azura Structure Chart



Overview of Azura Financing Structure

Amount (USD)	Fund Type	Funding Source
687 Million	Debt	Consortium of 15 Local and International Banks, Standard Chartered appointed Global Lead Arranger
190 Million	Sponsor's Equity	Amaya Capital, American Capital Energy and Infrastructure, the African Infrastructure Investment Fund 2, Asset & Resource Management Company Ltd, Aldwych International Ltd, Pan African Infrastructure Development Funds 2 LLC and Edo State Government of Nigeria
120 Million (NGN 24 Billion)	Debt	PAIF
Total Exposure: 997Million		

Questions/Discussion Points

- What were the key factors that contributed to the successful development and implementation of the Azura Power Plant project?
- Evaluate the impact of the power plant in terms of improving the power, especially in terms of attracting much-needed private investment in the sector.
- Discuss the significance of government-led sustainable energy policies and strategies in the context of the project.
- Discuss the potential for expansion, and the role of the power plant in meeting Nigeria's long-term energy needs.

Further News on Azura-Edo Power Plant

Business News

Stakeholders urge cautious handling of Azura's $1b investment probe

By **Kingsley Jeremiah, Abuja**

26 August 2022 | 4:18 am

"The Nigerian power sector may wallow in investment deficits and dismal performance if the National Assembly and the Federal Government fail to respect the sanctity of contracts, especially the $1 billion investment by the Azura Edo Power plant, energy experts told The Guardian yesterday."

Source: The Guardian, 2022

World Bank chiefs rush to Abuja over fears of Azura's $100m default

BusinessDay – Feb 7, 2023

"A team of senior World Bank chiefs came to Abuja last week amid rising worries over an impending default on payment of about $100 million to creditors of the 451MW Azura power plant located in Edo State, BusinessDay has learnt."

Source: BusinessDay, 2023

Further News on Azura-Edo Power Plant

BUSINESS

Azura Power Generates 452MW Daily As 40% Payment For Gas, CBN Loan – MD

The Azura Power Plant in Edo State consistently generates 452 megawatts (MW) daily to the national grid and pays over 40 per cent of its…

“The Azura Power Plant in Edo State consistently generates 452 megawatts (MW) daily to the national grid and pays over 40 per cent of its energy invoice receipt to the government for gas and loan from the Central Bank of Nigeria (CBN).”

Source: Daily Trust, 2022

PUNCH

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Firm invests in 461MW Azura-Edo power plant

19th December 2019

“Africa50, a pan-African investment platform, has announced its investment in the 461-megawatt Azura-Edo IPP in Nigeria.”

Source: The Punch, 2019

Key Latest Summary on Azura-Edo power Plant

Having reached completion and started operations in 2018, key updates from the Azura-Edo Power Plant include;

- Azura **currently generates and distributes about 450MW of electricity** but is expected to be expanded to generate up to 1,500 MW.
- To fund its operations, all the electricity that it generates is paid for by the government, under a **take or pay power purchase agreement.**
- The company has come under some scrutiny over the appropriateness of these contracts; however, **this scrutiny does not appear to constitute a real threat** to the continued performance of the project.
- The project's **loan-repayment schedule has been delayed or interrupted a few times**, due to forex sourcing difficulties, rather than cash flow or profitability issues.
- These **delays have prompted claims from lenders on the World Bank's MIGA** (Multilateral Investment Guarantee Agency); a development that may hamper funding for any more similar projects in the pipeline in Nigeria.

Reference

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1. https://guardian.ng/business-services/stakeholders-urge-cautious-handling-of-azuras-1b-investment-probe/
2. https://businessday.ng/business-economy/article/world-bank-chiefs-rush-to-abuja-over-fears-of-azuras-100m-default/
3. https://dailytrust.com/azura-power-generates-452mw-daily-as-40-payment-for-gas-cbn-loan-md/
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