Nigerian Gas Sector Watch Volume 4

KPMG in Nigeria

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This publication provides information on developments in the Nigerian Gas Sector space during the first and second quarters ended June 2021. We hope you find the information and insights in the publication useful.

1. Nigerian Government creates $500bn loan funding arrangement for importers of gas flare equipment.

The Bank of Industry, in collaboration with the Bank of China, has created a US$500bn funding arrangement to finance the importation of gas flare equipment into the country. To access the funding, intending borrowers are required to provide an advance of 25 percent of their funding needs and import the gas flare equipment from China. For companies/players that intend to import their flare capture equipment from the United States, the US Exim Bank has also approved $69.8million for this purpose.

This is a welcome development as it aligns with the Federal Government of Nigeria's (FGN) commitment to revitalizing the domestic gas sector, as the country moves towards zero emission. Furthermore, the initiative will ease the access to funding, which, prior to now, has been a major bottleneck to potential investors/players in that sector.

It is instructive to note that prior to the above initiative, the Central Bank of Nigeria (CBN) had in the third quarter of 2020 launched an intervention fund of N250billion for the Nigerian gas sector, to help stimulate investment in the gas value chain. The aim of the fund was to encourage the adoption of compressed natural gas (CNG) as the fuel of choice for power generation and transportation, and liquified petroleum gas for domestic cooking, amongst others. However, industry players have indicated that accessing the CBN intervention fund was difficult, as commercial banks were treating access to the fund like conventional bank loans, thereby stalling its disbursement. Operators have therefore opined that it is important that the CBN and other development banks prioritize the development of the Nigerian gas industry by providing concessionary interest rates and guarantees for dollar-denominated loans, in order to improve lender's confidence in the gas projects.

2. Morocco and Nigeria renew commitment to gas pipeline, fertilizer plant projects

The Governments of Nigeria and Morocco have cited the positive trajectory of Morocco-Nigeria bilateral relations as a basis for re-affirming their commitment to pursue their strategic joint projects, one of which is the Nigeria-Morocco Gas Pipeline (the Pipeline). The Agreement between the Nigerian National Petroleum Corporation (NNPC) and the Moroccan Office National des Hydrocarbures et des Mines (National Board of Hydrocarbons and Mines) (ONHYM) for the Pipeline was signed in December 2016.

The Pipeline is expected to cover 5,660 kilometers along the Atlantic coast, from Lagos, Nigeria to Tangier in northern Morocco. It is currently one of West Africa's most ambitious and anticipated infrastructural development, as it would transport natural gas from Nigeria to Morocco and Spain, through eleven West African countries. The Pipeline will be an extension of the existing West African Gas Pipeline and will be connected to the existing infrastructure to enable it to serve Spain through Cádiz. A feasibility project was conducted in 2019 and the estimation was that the project will be completed over a period of twenty-five years at a cost of $25billion.

Stakeholders have lauded the Pipeline project as it is expected to improve access to energy across West Africa, thereby leading to the development of various sectors and promoting the competitiveness of exports amongst the African countries. The project will also strengthen energy exports from Africa to Europe.

3. Department of Petroleum Resources {DPR} reviews five terms for gas development in Production Sharing Contracts {PSCs}

The DPR has considered and reviewed five terms for gas development under PSCs in Nigeria. The five terms include duration, cost of gas, tax gas, royalty, and profit gas.

The reviewed terms were communicated during a Public hearing at the National Assembly, organised by the Joint Committee on Gas Resources and Petroleum Resources, Upstream and Downstream.

According to the DPR, the review of the five terms will enable the provisions relating to gas in the Petroleum Industry Act (PIA) to adequately address all stakeholders' concerns – who have consistently reiterated that the absence of gas terms in the existing PSCs was hampering the development of the Nigerian gas sector. With the PIB passed into law and with specific fiscal terms relating to gas development included in the law, it is hoped that this should incentivize investors to fund gas projects towards achieving the objectives of the National Gas Expansion Programme (NGEP).

Beyond making specific fiscal provisions in the PIA regarding gas as a stand-alone resource, to continue to attract investors into the Nigerian gas sector, it is imperative that gas prices for all value chain within the sector are determined by market forces, and that there is stability of fiscal, legal, and regulatory frameworks.

4. FGN to launch micro distribution channels for Liquefied Petroleum Gas (LPG) across all Local Government Areas (LGAs)

To ameliorate the energy challenge in Nigeria, the FGN has disclosed that it intends to open micro LPG distribution channels (i.e. gas regasify and distribution centers) across all LGAs. The objective is to provide clean cooking gas and empower rural women to adopt a healthy alternative to firewood, as fuel for cooking.

According to the National Centre for Women's Development, the project will benefit up to 99 million women across various households in 774 LGAs, within the next three years. In addition, it would accelerate the FGN's efforts of achieving its 2023 sustainable energy targets. In furtherance of this initiative, the FGN, in collaboration with the Nigerian Energy Support Programme, has kicked off the national sensitization and awareness campaign for the use of LPG in 12 pilot states (Sokoto, Katsina, Bauchi, Gombe, Enugu, Ebonyi, Delta, Bayelsa, Lagos, Ogun, Niger and the Federal Capital Territory).

The FGN has been applauded on this initiative as the distribution channels will create jobs and generate revenue for the Government.

Relevant stakeholders are enjoined to drive non-discriminatory employment practices and engage women in community consultation and decisions for their active participation in the sector. The FGN should however ensure that all the operators in the sector are properly monitored to ensure compliance with the Minimum Industry Safety Training for Downstream Operators.

5. Nigeria seeks delay in defunding international natural gas projects

During a virtual African regional head of Government Commonwealth round-table, the FGN stated its preference for a deferral of the European Union's (EU) plans to de-fund natural gas projects, as the move would have dire consequences for African gas-producing countries. In making this statement, the FGN declared its support for the Commonwealth's goal, and the proposed transition steps to decarbonize and achieve a net zero emission; and that Nigeria is currently on the path of transitioning to the use of cleaner energy, in line with the global target of net zero emissions.

Thus, rather than defunding the natural gas projects, the FGN is pushing for the Commonwealth to consider other ways too to support African countries in transiting to net zero emissions. In addition, the FGN noted that it is fully committed to all actions and efforts taken towards achieving zero emissions, including the Paris Agreement, and that Nigeria has taken several steps in this direction (for instance; the NGEP, and the Economic Sustainability Plan of replacing premium motor spirit (petrol) with CNG and LPG).

Given the FGN's declaration of the decade of gas and the steps being taken in the country to revitalize the gas sector, we believe that the FGN's appeal is equitable especially as natural gas is a cleaner source of energy and defunding gas projects internationally will have an impact on potential investors in Nigeria, seeking for international funding for their domestic gas projects.

6. Huge investments required for Nigeria's gas plan – NNPC

According to the NNPC, to achieve the decade of gas plans, the Nigerian oil and gas industry will require at least US$40 billion of direct investments in basic infrastructure for the upstream, midstream and downstream sectors. The estimate is based on the quantum of funds needed for the projects that have been submitted to the NNPC by potential investors. The decade of gas initiative seeks to leverage Nigeria's natural gas reserves for domestic gas supply (Gas-To-Power), Alternative fuels (Gas-To-People) and Gas Based Industrialisation (Gas-To-Derivatives) elements of the Gas-fired Industrial economy agenda within this decade.

The estimated investments are expected to generate about 45,000 megawatts of power from gas fired plants, create jobs, and enhance import substitution. However, there is a concern that attracting the necessary foreign funding for gas projects may hamper local content drive, based on the tough requirements by foreign lenders. Also, the FGN has been urged to clearly articulate its strategies for the restriction of fossil fuel to achieve the decade of gas goal, and to answer the questions surrounding gas pricing. Hopefully, the framework provided in the recently passed PIA will address these issues. This is particularly so since Nigeria intends to use gas as a source of revenue, as well as balancing between investment and local content drive.

7. **DPR rallies stakeholders to boost gas supply**

In furtherance of its plans to resolve the current gas to power shortage, the DPR met with the Nigerian Electricity Regulatory Commission, the Nigerian Bulk Electricity Trading Limited and power Generation Companies (GENCOs) to identify proposed solutions. Specifically, the DPR urged the GENCOS to take advantage of the Nigeria Gas Network Transportation Code (NGNTC) which was launched in 2020 to promote accessibility and affordability, while committing to address the issues raised on the implementation of the NGNTC.

Up to 70% of the gas produced in Nigeria is consumed by GENCOs. Thus, a continuous engagement between the DPR and the GENCOs is critical to overcoming the gas-to-power challenges. According to the DPR, keying into the network code would benefit the commercial sector, gas-based industries and the power companies and mitigate the challenge associated with gas flaring in the country.

Clearly, continuous stakeholders' engagement is a welcome development as it will ensure that issues plaguing the sector are quickly brought to the attention of the FGN, for prompt resolution.

Conclusion

In line with the FGN's announcement of the decade of gas, an initiative to ensure that Nigeria takes advantage of its vast natural gas resources[1] amidst the global energy transition, there has been significant traction from the FGN with major reforms in the gas sector. The expectation is that Nigeria's largely untapped, natural gas resources could provide the means for the country to fund its way through the global energy transition. Nonetheless, it is important that the Nigerian Government ensures that proper infrastructure is in place, as the lack thereof has historically hampered the general growth of the Nigerian economy, gas sector inclusive. In addition, the players in the Nigerian gas sector have continued to push for full transition to "a willing buyer willing seller market". While the currently passed PIA has seem to address this issue, the implementation of it will be critical in resolving the matter permanently. Furthermore, the DPR has also been advocating that market forces should be allowed to determine gas prices, to guarantee the security of gas supply and credible gas demand to enable the FGN achieve its plan for the resource to contribute meaningfully to Nigeria's economic development. Hopefully, with the PIA in place, and the strong desire by the DPR to support this initiative, operators should expect a much more positive result therefrom.

[1] The DPR announced in June 2021 that Nigeria's proven gas reserves have increased to 206.53 trillion standard cubic feet.

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For further enquiries on the above and information on how KPMG can assist you, please contact:

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