

Nigerian Gas Sector Watch Volume 3

KPMG in Nigeria

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This publication provides information on developments in the Nigerian Gas Sector during the fourth quarter ended December 2020 and January 2021. We hope you find the information and insights in the publication useful.

1. Federal Government of Nigeria (FGN) Releases Guideline for Operation of Downstream Gas Facilities

The Department of Petroleum Resources (DPR) released guidelines for the establishment and operation of downstream gas facilities across the country. The Guidelines were issued pursuant to the Petroleum Act 1969, Mineral Oils (Safety) Regulation, 1997 and the Petroleum Regulation, 1967. Going forward, companies seeking to establish gas-dispensing facilities are now required to obtain the relevant approvals and licenses, before commencing operation.

The Guidelines stipulate the minimum requirements, procedures and conditions which must be fulfilled before the grant of approvals or licences for the construction, installation, modification, takeover, relocation and operation of downstream gas facilities in Nigeria. It includes the following:

- a. Guidelines for the establishment and standard operation of Liquefied Petroleum Gas (LPG) refilling facilities and retail outlets;
- b. Guidelines for the establishment of auto gas refueling stations and add-on gas facility;
- c. Guidelines for the establishment of gas storage and utilisation facilities;
- d. Guidelines for the establishment and operation of Compressed Natural Gas (CNG) compression facilities; and
- e. Guidelines for the establishment and operation of Gas Reticulation facilities.

Companies intending to establish these facilities must comply with the minimum requirements stipulated for design, construction, installation, maintenance, standard operating procedures, documentation, storage and standards highlighted in the Guidelines. Investors are required to obtain the necessary approvals and the licence to operate (depending on the proposed gas facility). The Guidelines also provide the necessary procedures for pre-licence approvals, renewal of licences,

decommissioning of facilities and the applicable sanctions for non-compliance with the requirements documented therein.

According to the Guidelines, interested applicants are to apply for licences through the Automated Gas System portal via: elaps.dpr.gov.ng. Additional details on the specific guidelines/procedures for each gas facility highlighted above can be accessed on the DPR's website¹ by stakeholders and prospective investors.

Hopefully, the release of the Guidelines, together with other policies aimed at developing the Nigerian Gas sector will enhance gas penetration and utilization, and promote operational safety and the ease of doing business in the Nigerian oil and gas sector.

2. Export of Liquefied Natural Gas (LNG) Stabilized In 2020

Despite the devastating impact of the coronavirus (COVID-19) pandemic on gas demand generally and sharp fall in LNG utilization rates in parts of the world in 2020, an analysis from S&P Global Platts Analytics data revealed the impressive resilience of LNG exports from West African producers. For example, Nigeria led the West African region in LNG export as 27.6 Bcm of gas equivalent was exported in 2020, just a paltry 1% reduction, when compared with the export volume in 2019.

Our expectation is that the government will take the necessary steps to sustain the peace in the Niger Delta area, the region where gas is produced, in order to facilitate continued and unhindered operation of oil and gas producers.

3. Use of Domestic Gas on the Rise in 2020

According to the Petroleum Products Pricing Regulatory Agency, Nigeria's domestic LPG consumption exceeded one million metric tonnes (Mt) in 2020, compared to 840,594 MT and 635,452MT consumed in 2019 and 2018, respectively. Hence, 2020 was the first year in the nation's history where LPG consumption reached the one million MT threshold. As such, the domestic

¹ DPR Guidelines – Department of Petroleum Resources

consumption milestone in 2020 has placed the country as one of the leading LPG consuming nations in West Africa and in the continent.

It is noteworthy that the Nigeria Gas Policy (NGP) set a domestic consumption target of 5million MT by 2022. Although, this is a laudable feat, with only one year to this timeline, achieving this target may be a tall order. Nonetheless, it is hoped that the current rate of consumption and the intervention efforts and initiatives of government and all stakeholders will be sustained to encourage more consumers to embrace LPG use.

4. China Approves Loan for \$2.6bn Ajaokuta-Kaduna-Kano Gas (AKK) Pipeline Project

The FGN has announced that Chinese lenders (i.e. Bank of China and Sinosure, a Chinese export and credit insurance corporation) have approved and will disburse the loan required to fund the balance of US\$2.6bn needed for the AKK gas pipeline project (being 85 % of the total cost). The AKK pipeline project, which took off in July 2020, is a 614km long natural gas pipeline that will form phase one of the Trans-Nigeria Gas Pipeline project (a portion of the Trans-Sahara Gas Pipeline System that will ultimately link Southern Nigeria with customers in Europe). The FGN, represented by the Nigerian National Petroleum Corporation, provided 15% equity for the pipeline project.

The plan is that the FGN would utilise the revenue realized from operating the pipeline and other existing revenue streams to repay the loan, once gas starts flowing through the line.

5. FGN Deploys 1,000 Automobile Petrol-to-Gas Conversion Kits

In the last quarter of 2020, the FGN announced that they have acquired about 1,000 conversion kits for converting petrol powered trucks and small vehicles to AutoGas powered. The kits were deployed across the country, in a bid to intensify the FGN's move to reduce the consumption of petrol and promote the use of gas in automobiles. In furtherance of this, 50 conversion centers have been identified and upgraded for mass conversion and training, as automakers in the country are gearing up to produce fit-for-purpose dual fuel vehicles. There are currently over 30,000 vehicles running on dual fuels in Nigeria and the FGN anticipates that, one million vehicles would be converted to run on AutoGas before the end of 2021. Thus, additional conversion kits are expected by the end of 2021.

The clamour for conversion of petrol-powered vehicles to Autogas powered is a welcome development and shows the resolve of the Nigerian Government to deepen domestic utilisation of natural gas in its various forms. According to experts, the adoption of AutoGas will lower transportation cost nationwide, because it is cheaper, available, affordable, accessible and is a clean alternative source of energy.

6. Petroleum Industry Bill ("PIB" or the Bill) 2020 Proposes Establishment of Midstream Gas Infrastructure Fund

The Bill is proposing the establishment of a specialized intervention mechanism, called the Midstream Gas Infrastructure Fund (the Fund), to support the FGN's efforts at deepening gas usage and building gas infrastructure in the country.

According to the Bill, "the purpose of the Fund shall be to make equity investments of government-owned participating or shareholder interests in infrastructure

related to midstream gas operations aimed at; increasing the domestic consumption of natural gas in Nigeria in projects which are financed partly by private investment; and encouraging private investment.

Some of the proposals highlighted in the Bill with respect to the Fund include:

- 1) The Fund shall be funded through the following:
 - a. Not more than 1% of the levy prescribed in a Regulation under the Act (i.e. the Petroleum Industry Act), derived from wholesale price of petroleum products sold in Nigeria and natural gas produced and sold, which shall be collected on wholesale basis.
 - b. Funds and grants accruing from multilateral agencies, bilateral institutions and related sources dedicated partly or wholly for the development of infrastructure for midstream gas operations in Nigeria,
 - c. Interest, if any, payable in respect of money in the Fund;
 - d. Any other sum, freely donated or accruing to the Fund for development of infrastructure in midstream gas operations; and
 - e. Earnings, interest and other income accruing from the equity investment made pursuant to the Fund.
- 2) The levy highlighted in 1(a) above shall become due within 21 days of the sale of petroleum products in Nigeria and natural gas produced and sold.
- 3) The Minister of Petroleum Resources {MoPR} shall, after consultation with the Governing Council {GC}, make Regulation for:
 - (a) administration procedures; and
 - (b) penalties for –
 - (i) late payment of the levy,
 - (ii) non-payment of the levy, or
 - (iii) submission of false information in respect of the levy.
- 4) The Fund shall not be subject to the provisions of the Fiscal Responsibility Act, Infrastructure Concession Regulatory Commission Act and the Public Procurement Act but shall comply with the Fund procurement and fiscal regulation to be made under the Petroleum Industry Act.
- 5) Every year, the GC shall approve the Fund's programme of action and budget and the Accountant General of the Federation shall release the approved amount for that financial year. Any money in the Fund's Account that is not utilised as prescribed shall be held or invested as the GC directs. An annual statement of the Fund shall be prepared and submitted to the GC and Minister of Finance, within 3 months from the end of the preceding financial year.

7. Oil Firms to Pay Fine for Gas Flaring in New PIB

Pursuant to Section 105 of the Flare Gas (Prevention of Waste and Pollution) Regulation, the proposed PIB prohibits the flaring or venting of natural gas and prescribes a fine for gas flaring. Thus, any licensee, lessee or operator that flares or vents natural gas will be liable to pay the fine, except in the event of an emergency; exemption granted by the Commission, or as an acceptable safety practice under established Regulation.

Although, the Bill was not specific on the fine, it prescribes that the fine shall be paid in the same manner and subject to the same procedure for the payment of royalties by companies engaged in the production of petroleum, to the FGN. However, the fine will not be eligible for cost recovery nor will it be tax-deductible.

The Bill also requires that prior to the commencement of petroleum production, licensee must install metering equipment in facilities where gas may be flared or vented in accordance with the prescribed Regulation. Failure to adhere to this requirement will result in an offence, with the payment of a fine.

It is pertinent to note that the Bill, however, provides an exemption to the prohibition of gas flaring, by allowing the flaring or venting of natural gas for a specific period where it is required for facility start-up; or for strategic operational reasons (including testing), although this is subject to the approval of the Commission or the Authority.

Licensee or lessee producing natural gas will be required to submit a natural gas flare elimination and monetisation plan within 12 months from the effective date of their licence or lease, in accordance with the relevant Regulation.

Conclusion

The increased activities and focus of stakeholders on the gas sector will continue to deepen the development of the sector and foster the growth of the Nigerian economy. It is important that the government accelerates the enactment of the PIB, as the fiscal uncertainty in the oil and gas sector continues to hinder new investments in the sector. This will potentially affect the volume of gas available for domestic and industrial use. In addition, the FGN should ensure that there is an enabling environment for the operators in the sector to thrive.

How KPMG can help

KPMG has dedicated business units that support end-to-end business processes. We provide a wide range of services from assisting to conduct feasibility studies, to due diligences, outsourcing, transaction advisory services, preparation of statutory accounts, maintenance and preparation of employee payroll, expatriate mobility services, mergers and acquisition advisory, monthly management reporting, statutory accounts audit, and tax compliance services, which include preparation and submission of statutory tax returns, amongst others.

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