

REVIEW OF THE NATIONAL GAS POLICY (2017)



INTRODUCTION

Nigeria is regarded as being more of a gas province than an oil province and currently harnesses about 5 Billion Standard Cubic Feet (BSCF) of gas per day from its huge gas (associated and non-associated) reserves of about 188 Trillion Standard Cubic Feet (TSCF).

Given Nigeria's prominence as having the largest gas reserve in Africa and ranked 9th in the world, the Federal Government of Nigeria (FGN) in a bid to reposition the economy and unleash a gas revolution, recently approved the National Gas Policy (new policy) on the 28th of June 2017. The new policy seeks to unlock a new policy direction, institutional and governance framework for the country geared towards driving industrial growth through gas utilization strategies.

The policy envisages a robust partnership between the government and private sector in fully harnessing the gas potentials of the country, and ultimately transiting from an oil based dependent economy to an oil and gas based industrially driven economy.

Part of the intentions of the Federal Government through this policy initiative is to shift away from gas re-injection policy and end gas flaring by 2020 through a steady commercialization of flared gas for domestic market use by ensuring flare capture and utilization projects are developed with plans to work collaboratively with industry, development partners, providers of flare capture technologies, and third party investors for this purpose.

To facilitate energy security and reduce the impact of disruptions from militancy within the Niger Delta region, the government through this policy initiative anticipates to diversify the gas supply source from other regions of Nigeria.

Over the decades, Nigeria has gone through a very tortuous journey of reforming its energy resources industry with gas as a resource historically underdeveloped. From the Associated Gas Re-injection Act of 1979, which sought to ban gas flaring by 1st January 1984, the Associated Gas



Re-injection Act (Continued Flaring of Gas) Regulation of 1984 which provided exemptions to the general ban on gas flaring right up to the Draft Natural Gas (Fiscal Reform) Act, 2005 leading to the Gas Master Plan (GMP), 2008 and the National Domestic Gas Supply and Pricing Regulation, the Federal Government of Nigeria (FGN) on many occasions sought to reform the gas industry without noticeable success.

The challenges of the gas sub sector of Nigeria are well known as the new policy has been framed to address them within an even more constrained economic environment. This report reviews the new policy framework as well as the implementation strategy of the FGN and also makes recommendations on how to avoid the pitfalls that characterized the power sector reform process considering the key role gas is intended to play in the power sector in boosting the domestic gas market.

HIGHLIGHTS OF THE NATIONAL GAS POLICY

The Governance (legislation And Regulation)

The policy framework on governance recognizes gas as a standalone commodity and industry of its own right separate from oil to be regulated by a single regulator. The new policy seeks to separate upstream from midstream and downstream and with separate legal ownership of gas infrastructure from gas operations and gas trading. The strategic governance approach of the new policy will be to enable enactment of a new legislation recognizing gas as a separate resource and providing different licensing regimes for different activities within the gas value chain. The new policy also anticipates the establishment of a single

independent regulator that will serve as the technical regulator to address the shortcomings of metering, measurement and fiscalization of hydrocarbons in Nigeria amongst other gas industry issues. It also anticipates that a wholesale market regime will be declared when certain triggers are clearly in place: Pricing Reference Points; Large Volumes; Many Buyers; and Many Sellers, etc.

To engender effective monitoring and implementation of the new policy framework, a National Petroleum Policy Directorate (NPPD) will be set up as a technical back office in the Ministry of Petroleum Resources (MPR) with specialist centers along oil policy, gas policy, strategic policy and research; and investment promotion.

INDUSTRY STRUCTURE

The new policy anticipates a robust public private partnership and a clear separation of the roles between the private sector and government. To drive industrial growth, the new policy thrust expects commitment by the operators to the domestic gas obligations as their contribution to and for doing business in Nigeria. The new policy envisages the FGN providing the enabling business environment through institutional and regulatory interventions for the operators and the private sector to drive growth.

DEVELOPING GAS RESOURCES

The new policy seeks to engender an enabling environment for gas exploration and diversification of supply source from areas beyond the Niger Delta region in order to foster energy security and thereby reduce the adverse impact of gas disruption from any particular region on the economy.

The new policy also anticipates the development of innovative projects such as embedded power and host community electric power projects to eliminate the remaining gas flare sites and also aims to increase penalties for gas flaring in order to dis-incentivize the practice of gas flaring whilst introducing other measures for efficient gas utilization.

INFRASTRUCTURE

The new policy recognizes the critical need for gas infrastructure and therefore seeks to accelerate the construction of East-West OB3 pipeline (127km) project and the expansion of existing pipeline system with all power plants permanently connected to gas supply pipelines. Effectively without a robust roll out of the gas transmission infrastructure backbone to link gas to the demand centers, the entire aspirations of the new policy framework will be a mirage.

BUILDING GAS MARKETS

The new policy anticipates the development of the domestic gas market through a project based approach by exploring alternative gas market options for domestic, industrial and electric power applications. It seeks to exploit the value addition of Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and other gas derivatives in developing viable domestic market for gas supplies which will be market led and not centrally planned. Gas projects will be developed for petro-chemical plants, fertilizer plants, village power plants and embedded power plants. The new policy also anticipates Natural Gas Vehicles and Liquefied Natural Gas applications for vehicles, power, agriculture and industry. It will seek to exploit market opportunities for both export and domestic supplies.

DEVELOPING NATIONAL HUMAN RESOURCES

In moving the gas subsector forward, the new policy aims to develop indigenous human capacity to take over the management and development responsibility of the subsector. The strategic approach by the new policy will be to implement the local content legislation (Nigerian Oil and Gas Industry Content Development) NOGICD Act 2010 and develop competent work force especially through apprenticeship.

COMMUNICATIONS

Part of the strategy to achieve the successful implementation of the new policy initiative for the gas subsector is to facilitate communication amongst the different stakeholders. The strategy aims to explain the policy directive of the FGN to all stakeholders impacted by the industry reforms and drive significant culture shift, thereby changing attitudes within the industry.

ROAD MAP AND ACTION PLAN

To facilitate the strategic implementation of the new policy initiative, the new policy sets out a road map and clear action plans from short, medium to long term projections. It takes into account critical policy milestones for the unfolding of a new gas industry regime.

CONCLUSION AND RECOMMENDATIONS

The new gas policy buys into the National Economic Recovery and Growth Plan (ERGP 2017-2020) of the FGN and seeks to accelerate the development of gas resources in line with the socio-economic development priorities of the country.





The new policy acknowledges the gas to power linkages as well as the challenges of bankability of power projects in Nigeria.

Given that the power sector provides the main demand for natural gas, the policy intention is to accelerate the development of the gas subsector to attain competitive wholesale market prices that can be negotiated by power generators.

The new policy anticipates a National Petroleum Fiscal Policy Document (NPFDP) which shall provide the fiscal rules that are clear, transparent, globally competitive and designed to incentivize all participants thus enabling gas projects to be developed based on their economics and separated from oil taxation.

The current pricing of gas for domestic consumption, particularly as it relates to the gas to power project is simply unrealistic and has constituted a major drawback to investment in domestic gas production and supply.

Based on our analysis of the new policy, we recommend as follows:

EFFECTIVE IMPLEMENTATION OF THE POLICY

To ensure the effective implementation of the new policy framework, the FGN can draw lessons from the power sector in terms of developing and attaining the effective implementation of the legal and regulatory framework. There must be an alignment of laws and regulations to avoid conflicting provisions which is currently the bane of the power sector whereby the extant law(s) do not align with some of the regulatory instruments developed by the

regulator. It is important for baseline data that will be formulated for price setting purposes amongst other key factors, to be hinged on current realities within the gas sector in order to avoid a liquidity crisis that is currently bedeviling the power sector in Nigeria occasioned by lack of cost reflective tariffs amongst other impediments including the uncertainty of the regulatory environment since the sector privatisation process.

Supporting the quest for a realistic cost recovery regime, the need for a robust gas infrastructure framework has to be put in place before the anticipated gas revolution unfolds. Combined with a strong independent and responsive regulator, we anticipate a robust economic regulation that will drive a sustainable and bankable gas subsector that will be aligned with the overall national development priorities of the country.

AFFORDABILITY OF NEW PRICING REGIME

We anticipate that the new gas pricing regime may stir up the issue of affordability, particularly when linked to power generation. Whilst gas prices are set by netback from export parity price (EPP) at the transitional stage, this may create volatile price movement, disentangled from the current price regime of the power sector, where such costs cannot be passed through to end users.

In addressing this issue, the new policy anticipates government intervention funds of Sixty Billion Naira (N60 bn) to guarantee availability. Whilst this interventionist approach of the FGN is commendable, the management of the funds and ensuring payment discipline across the value chain to achieve the targeted goal of bridging the gap and achieving

the sustained availability of gas towards a wholesale competitive market remains even more critical and ought to be carefully orchestrated. Power generating companies can afford the wholesale market price for gas as against the current low and cross subsidized gas price only when there is payment discipline across the electricity value chain factored around the existence of regulatory certainty in the gas to power value chain.

Getting it right at this stage of implementing the new policy regime will unlock increased investment, stimulate competition and have an overall spiral effect on the power value chain. It is envisaged that the 'FGN availability gas intervention funds' will avert the likely price shocks across the gas to power value chain that will arise from implementing the new price regime.

COMMERCIALIZATION OF FLARED GAS

Seen as part of the wider gas policy of maximizing national gas resources, the new policy framework anticipates the commercialization of flared gas which will have the effect of stimulating the deployment of gas utilization projects and progressively phase out the concomitant environmental footprint associated with gas flaring. Once the investors consider the commercial framework conducive, there will be increased investment in gas utilization projects which will reverse the environmental impact on the host communities. Another consideration for the FGN is to utilize the output from the commercialization of flared gas to increase power generation capacity of thermal power plants by selling the gas which would otherwise have been flared at subsidized rates to the power generation companies as feedstock for generating power. This may (depending on the cost implication of the flared gas vis-a-vis energy output) reduce the cost of energy that will be sold to the Distribution Companies which may in turn have a downward effect on electricity tariffs.

PRECAUTIONS ON ELECTRIFICATION OF METERED HOST COMMUNITIES CLOSE TO FLARED GAS

The desire of the FGN through the new policy framework to roll back the spectre of gas flaring by 2020 with the deployment of gas utilization projects within host communities is laudable. However, there will be need for modular projects that are scalable to accommodate the likely upsurge of end users that will follow from increased economic activities. Consideration will also need to be given to the health and safety implications of this proposed initiative. It is hoped that in designing gas to power utilization projects for cluster communities, the appropriate metering infrastructure will be in place and the projects would be designed and adapted to scale.

IMPLEMENTING EMBEDDED POWER PROJECTS WITH DISTRIBUTION COMPANIES VIA THE USE OF FLARED GAS

The new policy anticipates embedded power projects as veritable vehicles for the utilization of flared gas, perhaps on account of the location advantage of embedded power within the distribution grid infrastructure. However, it is imperative to note that the necessary gas pipeline infrastructure linkages will have to be in place prior to implementing an embedded power project within a suitable community that will channel the flared gas to the power plant for utilization. In addition there will be need to take into account the overall environmental impact to ascertain the suitability of the embedded power project within a host community. Nevertheless, it may be anticipated that the cost of the flared gas which should be cheaper for embedded power projects will drive down costs which may in turn enhance the project economics from an investor perspective.

WORKABILITY OF THE PROPOSED ALTERNATIVE MARKETS FOR GAS

The FGN strategy of driving small scale, project based and market opportunity approach to developing alternative gas market is a welcome development in principle. In particular, the domestic market for Liquefied Petroleum Gas (LPG) as from 2015 has been about 400,000 tonnes per year with arguably growing demand potential, particularly for industrial applications due to its beneficial environmental outcomes. However the LPG market is plagued by inefficient distribution chain and higher prices which will have to be addressed going forward.

As part of the anticipated approach to address these concerns, the FGN will have to put in place an enabling environment and incentives for private sector investment in the deployment of Natural Gas Vehicles for use by Nigerians which will act as a veritable switch from or alternative to Petroleum Motor Spirit (PMS) or Diesel usage to foster increased use of natural gas as a fuel option. We anticipate that the successful implementation of this strategy may be tied to the acceptability of the environmental policy relative to the economic benefits to majority of the populace. Effectively the workability of this FGN led program will most likely be hinged on the relative affordability of vehicles using natural gas as against PMS or Diesel.

The new policy strategy which also aims to implement the use of Rail Electrification will be premised on gas for powering the deployment of electric trains and train stations. This again will depend on careful execution by the FGN

partnering with the private sector to provide the technology for deployment at strategic locations. The right fiscal incentives and economic investment signals have to be put in place to attract the necessary private sector participation as the FGN will be unable to bear the burden of the associated cost of infrastructure.

Similarly, Compressed Natural Gas (CNG) transportation and the deployment of Liquefied Natural Gas (LNG) trucks are anticipated to obviate the dependence on gas pipeline infrastructure at demand centers. This way remote and hitherto unreachable markets will be bridged through transportation of gas to demand centers where building pipelines will be unfeasible and uneconomical.

Granted that the technologies to meet these opportunities already exist, it is imperative for FGN to put in place institutional mechanisms to address the likely price shock on consumers. Additionally, consideration has to be given to the transportation dynamics especially from a health and safety standpoint. It is hoped that industrial applications will be the priority focus in unlocking the alternative market opportunities.

ACHIEVING THE LPG POLICY FOR POWER GENERATION

The Liquefied Petroleum Gas (LPG) policy for power anticipates a vibrant market that will stimulate job creation and manufacturing of cylinders as well as development of power generation services. In effectively implementing the reforms for a new gas regime, the FGN must take a cue from the lessons and pitfalls underpinning the power sector by ensuring the bankability of gas projects from the onset; with the baseline indicator stemming from a cost reflective pricing framework.

Part of the new policy direction, is that the FGN also anticipates to stimulate the use of LPG to power by

reviewing the electricity tariff order to include LPG use to encourage the use of LPG as a feedstock for power. However, this proposed initiative has to be done in cognizance of the existing regulatory framework underpinning tariffs in the electricity sector.

Although the new policy anticipates the application of the FGN LPG availability gas intervention fund of Sixty Billion Naira (N60 bn), it is hoped that the funds will create the much needed impact in driving increased investments for sustained LPG availability.

In the final analysis, despite the positive public health and environmental benefits of LPG usage, the anticipated plan of the FGN to stimulate through behavioral shift; the demand side for LPG appears surreal in view of the fact that consumers traditionally respond to positive price signals. The challenge will be for LPG price to be more affordable than traditional fuels like wood, coal, kerosene and biomass. An adequate pass through and cost reflective price signal will be required for a sustainable LPG to power.

We hope that the issues identified and recommendations stated will ignite a more deliberate and holistic implementation strategy of the new gas policy framework that will be beneficial for the national development priorities of Nigeria.

WE ARE HERE TO SUPPORT YOUR BUSINESS

The New Gas Policy is anticipated to have significant legal and regulatory implications across the entire energy value chain with GEP well positioned to provide the needed legal, regulatory and contractual support to prospective investors seeking to undertake projects within the Nigeria energy industry space, given our wealth and depth of experience in the energy sector.

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