

ENERGY FOCUS REPORT- MAY 2020



A. INDUSTRY HIGHLIGHTS AND GLOBAL TRENDS

NIGERIA

Oil and Gas

- Oil prices rise as countries ease lockdown
- Nigeria amending 2020 budget with oil at \$20 per barrel – Finance Minister
- IOCs under-reporting gas flare figures to evade new levies
- PPPRA delays petrol price update for May amid multiple FX rates
- Rivers State to review permit to oil companies as positive case emerges in oil workers
- NLNG takes steps towards construction contract for \$10bn Train 7 project
- Nigeria, others E+P revenues to fall by \$1trn

Power

- FG promises IMF Nigerians will pay higher electricity tariffs
- Ikeja Electric secures latest ISO certifications to record industry's first
- TCN, DisCos' rift may worsen Nigeria's power supply woes
- Eko Disco improves electricity supply in 3 isolation centres in Lagos
- Ibadan DisCo appeals to customers over bill payment
- COVID-19 responsible for slow meter rollout – EKEDC

Alternative Energy

- Solar, onshore wind and storage continue to get cheaper – BNEF
- All On awards Lumos COVID-19 support package

to provide health centres in Nigeria with solar

- FG tells AGF it does not have \$200m to settle Sunrise over Mambilla dispute

Environment

- Shell denies being responsible for dead fishes on Niger Delta coastline
- Kwara launches Eco Clean Initiative project, discharges six COVID-19 patients
- COVID-19: NESREA releases guidelines for handling infectious wastes
- Foundation to sue Dangote Group over Kogi pollution

B. GLOBAL TRENDS

Oil and Gas

- American & African oil and gas players propose regulatory measures to ensure sustainability in response to COVID-19 and beyond
- Africa's oil producers impacted by OPEC crude production cut
- ExxonMobil slashes capex/Mozambique FID delayed
- Zenith Energy announces passing of resolution at AAOG GM for Tilapia acquisition in Congo
- Gulf of Guinea considered the most dangerous piracy zone for oil firms
- Libya's NOC confirms reopening of gas valve in Sidi Sayeh

- African crude exporter-economies to be hit hard by oil price drop, virus

- W-Industries lands Mozambique LNG job

Power

- Eskom to address environmental breaches at Kendal coal power station
- Zambia on track to power generation surplus
- Rio Energy to build 2,800 MW thermal power plant in Zimbabwe
- Demand for electricity in Uganda declines by 10% due to lockdown
- Burkina Faso govt plans to increase the capacity of the Komsilga thermal power plant
- Zambia on track to power generation surplus

Alternative Energy

- British company Gilkes completes second phase of Ruo-Ndiza hydroelectric project in Malawi
- Hydropower at risk in Uganda as water levels at Lake Victoria rise
- Turkana wind project in Kenya blows off electricity imports
- Human Rights Watch condemns damage by Souapiti hydroelectric project in Guinea
- A massive renewable energy scheme in Australia has been recommended for environmental approval.



B. INDUSTRY RISK/OPPORTUNITY REVIEW SNAPSHOT

S/N	CHALLENGES/ OPPORTUNITIES	HIGHLIGHTS	SOLUTIONS
1.	Amendment of Nigeria's 2020 budget with oil at \$20 per barrel	<ul style="list-style-type: none"> □ The drastic fall in oil prices resulted in the imperative amendment of the country's budget to fit prevailing circumstances. □ The initial oil price of \$57 as pegged in the budget will be cut down to \$20 to suit the current economic realities. □ This would in turn result in reduced recurrent expenditure, limited availability of funds for capital expenditure and more stringent spending. 	<ul style="list-style-type: none"> □ The amendment of the budget would lead to strategic internal measures for achieving economic growth. □ This would give rise to the need for cooperative efforts by sector professionals in the private and public space to achieve a sustainable economy. □ The need for legal services in crafting the legal framework for the changing economic sphere is paramount.

OPPORTUNITIES			
2.	Oil prices rise as countries ease lockdown	<ul style="list-style-type: none"> □ Oil prices show marked improvement. □ US benchmark West Texas Intermediate for June delivery was up 7.26 per cent. □ International benchmark Brent crude for July delivery was up 3.86%. □ Decline in supply resulted in increase in demand. 	<ul style="list-style-type: none"> □ The steady increase in oil price should suffice as an intermediate response to the economic challenges and must not derogate from a broader, effective solution to the COVID-19 situation.
3.	Covid-19 regulatory measures	<ul style="list-style-type: none"> □ American & African oil and gas players propose regulatory measures to ensure sustainability in response to COVID-19 and beyond. □ The measures includes tax waivers for service companies for six months; granting extensions to all exploration projects for 24 months; waiving part of the work project commitments for exploration companies etc. 	<ul style="list-style-type: none"> □ The Agenda will mitigate some harsh effects of the pandemic on oil and gas companies. □ The measures, if adhered to could provide the much-needed chance for the bounce back of the oil industry. □ The provision of legal advisory services to oil and gas services companies is critical in the event of implementation of the measures.

C. INDUSTRY FOCUS ANALYSIS

COVID-19: CONSIDERATIONS FOR RENEWABLE ENERGY PROJECTS

Introduction

The COVID-19 global health crisis has impacted every facet of the world economy, and the energy sector is no exception. The combined effect of lockdown measures across countries, the oil glut arising from the oil war between Saudi Arabia and Russia and the delay in directing production cuts by the Organisation of Petroleum Exporting Countries (OPEC) resulted in a global sharp decline in oil demand and a slump in oil prices. In Nigeria, this resulted in significantly lower income from oil exports, economic turbulence and expected lower investments in the energy sector. The implication of this on global and local energy systems is the realization of the need for non-oil, decentralized energy systems to achieve energy access, independence, and sustainability. In navigating the post-pandemic energy space, this article aims to examine salient considerations for the development of renewable energy (RE) projects considering the financial challenges arising from the pandemic.

Analysis

The COVID-19 pandemic has brought to the fore the important role RE can play in the achievement of Sustainable Development Goal 7 – Access to Affordable, Reliable and Sustainable Energy. In contrast to the volatility of the global oil market and unsustainable energy use from hydrocarbons, RE presents stable and sustainable alternative energy sources. However, there is the challenge of decline in new investment and clients. We address some considerations which might impact on RE projects in view of the present business climate.

1. Access to Funding

Funding of RE projects are capital-intensive and given these unprecedented times, it may be harder to secure finance for undertaking same. Access to project finance post-pandemic may be largely dependent on financial support packages available to RE developers globally and locally.

Whilst there are several impact intervention funds established by financial institutions in Nigeria, there is

also the need for sector relief funds through partnership with multilaterals, development finance institutions, and the private sector. In the short term, RE companies may be required by circumstances to take advantage of the existing funding opportunities through relief funds available from private and public quarters.

2. Supply Chain and Deployment Timelines

The classification of electricity services as essential services gives an advantage to RE developers. The major consideration is harnessing resources to shorten the deployment timeline and ensure swift deployment of mini-grids or solar home systems to scale within a competitive timeframe. Key factors to be considered include funding (debt or equity), equipment importation and clearing, availability and safety of installation personnel. The ability to achieve this within projected timelines will prevent project delays and revenue loss.

RE developers can work toward mitigating the various factors by negotiating reasonable timelines for each milestone achievement considering the myriad of challenges which may be present, one obvious challenge being equipment importation and clearing. In addition, RE developers may also consider investing or partnering with the equipment assembling companies in the upstream supply chain to reduce disruption on project execution. Advocacy with the government for reducing restrictions on importation of equipment during and in the early stages of the post-pandemic era would be feasible considering RE's classification as essential services.

3. Customer Impact

Although customers may currently experience payment challenges for RE services, RE developers may commence engagements and negotiations with customers in order to arrive at mutually beneficial outcomes. These outcomes may take the form of payment in installments, reduction in payment amounts vis extension of contract terms, moratorium (in the event of receipt of sector relief funds) or significant energy conservation methods. The pros and cons of implementing such measures should be

weighed against the organizational goal of each developer. In general, the applicability of measures for ensuring customer relations would be on a case-specific basis.

4. Governmental Policy Approach

The Federal Government can reshape the energy road map of the country by placing the achievement of SDG 7 at the fore of its long-term energy sector policy. The need to transition to clean energy and curb Nigeria's overreliance on oil cannot be overstated especially given the present circumstances. There is therefore the need for strategic investment and policy direction in crafting Nigeria's long-term energy goals.

Conclusion

The pandemic has resulted in grave financial crisis for the economy and RE development companies are no exception. Torn between the decline in new investments against sales and payments by customers due to the financial crunch, RE developers are forced to explore alternative considerations outlined above for continued business operations. Governmental fiscal and regulatory policy around energy transition is the quickest way by which the negative impact of the pandemic on the RE sector may be mitigated. Despite this short term drawback, it is important for Nigeria to fully embrace clean energy transition to ensure the nation's energy security and given the role the country plays in the global economic recovery.