

Nigerian Gas Sector Watch (Volume 5)

KPMG in Nigeria

February 2022

This publication provides information on developments in the Nigerian Gas Sector over the last few months. We hope you find the information and insights in the publication useful.

1) The Nigeria Midstream and Downstream Petroleum Regulatory Authority (the Authority) Releases Guidelines for Gas operations:

The Authority, which was recently set up in line with the provisions of the recently promulgated Petroleum Industry Act (PIA), 2021, has issued some guidelines (the Guidelines) for the regulation of gas operations in the midstream and downstream sector. Some of these Guidelines were originally prepared by the defunct Department of Petroleum Resources (DPR) but had not been previously released to the general public. The Guidelines issued are highlighted below:

- a) Guidelines for Flare Gas Measurement Data Management and Reporting Obligations:
- b) Guidelines for Establishment of Natural Gas Plant Facility in Nigeria:
- c) Establishment and Operations of Downstream Gas facilities in Nigeria:
- d) Grant of Permit for Bulk LPG Off-take:

We have summarised the key contents of the Guidelines below:

1.1. *Guideline for flare gas measurement data management and reporting obligations*

The Guideline was issued pursuant to the Flare Gas (Prevention of Pollution and Waste) Regulations, 2018 and sets the criteria, requirements, and relevant obligations of licensees/lessees and permit holders as it relates to flare gas measurement, data management and reporting obligations. It also addresses the metering and data collection standards. One of the objectives of the Guideline is the generation of flare site data to identify and quantify the environmental impact and the opportunities to commercialize flare gas.

According to the Guideline, the requirements for the selection of flare gas metering system shall comply

with the provisions of the “Procedure Guides for the Determination of Quantity and Quality of Gas and Gas Derivatives at Custody Transfer Points” issued by the DPR pursuant to the provisions of Paragraph 8 (1) (a) of the Petroleum Act 1969 and Paragraph 52 of the Petroleum (Drilling and Production) Regulations, 1969 (LFN CAP, 10, 2004).

The Guideline also provides the basis for the calculation of producer’s unaccounted flare gas and producer’s compounded flare gas quantity. It also prescribes that producers and processing facilities shall be granted a transition period of 24months for the purpose of metering application.

1.2. *Guideline for the establishment of natural gas plant facility in Nigeria*

This Guideline was issued pursuant to Regulation (2) and (3) of the Petroleum Refining Regulations 1974 and Petroleum Regulations 1969, as amended and any Regulations that may be issued for gas facilities. It lays out the approval process for the design, construction, commissioning, and operation of a gas plant facility. It also outlines the required documentation for the conceptual study, basic design and the detailed engineering design of a gas plant facility. Furthermore, it states the environmental, safety, maintenance and all other considerations to ensure standard and safe operations of the plant.

It also stipulates that the gas plant facility (and any modification therein) shall be operated in compliance with the provisions of the Petroleum Refining Regulations, 1974 and any regulations that may come in force. Lastly, the Guideline contains information that should be provided in the event of a plant relocation.

1.3. *Guideline for the grant of permit for bulk LPG off take*

The Guideline lists the eligibility criteria of companies that may apply for permits for off take of bulk LPG from the process plants. Furthermore, it stipulates the conditions precedent to the grant of permit, mode of application, the verification process of the facilities and

¹The Guideline stipulates that the Transition period will not apply to Greenfield Projects.

certification and the conditions for discharge of cargo at the relevant jetties. According to the Guideline, every LPG off-take permit shall have a duration of twelve (12) months from the date of issue.

We commend the Authority for the prompt action in re-issuing these Guidelines in line with responsibilities as codified in the PIA. Nonetheless, given that all the Guidelines were prepared prior to the enactment of the PIA in August 2021, it may be necessary to review and ensure that the procedures highlighted therein are consistent with the provisions of the PIA.

2) Gas pricing, Government intervention and the Petroleum Industry Act, 2021

The price of gas has been stated to be one of the key considerations for foreign and local investors in Nigeria's gas sector. The passage of the PIA was expected to provide clarity in this regard, however the provisions of the PIA are yet to be fully implemented by the Authority.

The Federal Government of Nigeria (FGN) through the President, on 29 March 2021, declared 1 January 2021 to 31 December 2030 as the Decade of Gas. This is expected to herald the drive to increase foreign direct investment in the vast gas resources (206 trillion cubic feet) of Africa's largest oil producer and to ensure the country is properly positioned to take advantage of the global transition to cleaner energy.

However, recent Government interventions in the gas sector especially as it relates to pricing of the gas commodity, may have led to disincentivizing participation of stakeholders in this sector. This may have led to shortages in gas supply to the domestic market. The government announced in July 2021, the reduction of prices for gas supplied to the domestic market from \$2.50/MMBtu to \$1.50/MMBtu as recommended by its technical ad hoc committee to address increases in the electricity tariff.

However, there are concerns as to whether the reduction took into cognisance the financial model used by the suppliers in generating the investment.

The PIA stipulates the terms for the operation and domestic delivery of gas termed as the "domestic gas delivery obligation". The provisions of the relevant sections in the Act clearly allows the supplier of gas (a lessee) to the strategic sector to conclude contracts with customers for the delivery of marketable natural gas on a free market basis. The Act also goes further to curate the ability of the lessee to supply (after meeting its domestic obligation) customers who are not in the strategic sector, marketable natural gas on a willing seller and willing buyer basis. It is obvious that while there appears to be an intent to encourage bilateral trading between gas suppliers and wholesale customers in strategic sectors on a free-market basis when the market is fully developed, the Authority is still empowered by the PIA, to regulate the domestic base price and the prices applicable to wholesale customers of the strategic sectors and gas distributors. The jury is still out on the impact this may have on investors and investments in the sector.

3) Nigeria seeks Cooperation with Qatar on Gas Development

The Permanent Secretary of the Ministry of Foreign Affairs while representing Nigeria in a meeting

between the country and the State of Qatar sought for a collaboration between both countries for gas development, especially in skills and capacity building. During the meeting, the Secretary-General of the Ministry of Foreign Affairs of the State of Qatar, who highlighted the excellent relations between the two countries, stated that Nigeria will also need to focus on increased investments in gas exploration and infrastructure; technology exchange, skills acquisition and knowledge sharing; manpower development in safety and environment; gas shipping and marine transportation, as well as advocacy and collaboration in campaigning for gas as a fuel of choice in line with the global energy transition agenda.

According to Mordor Intelligence, the Nigerian oil and gas market is estimated to record a 4.5% Compound Annual Growth Rate (CAGR) between 2022 and 2027. The CAGR has been affected by the COVID-19 Pandemic which led to a significant reduction in capital expenditure by oil and gas companies globally. The FGN is thus, seeking to deepen natural gas utilization to enable it to boost investment in power and gas-based industries. The proposed collaboration with Qatar, one of the top gas producing countries harbors numerous possibilities for the Nigerian gas industry and aligns with the ultimate objective of the declaration of a decade of gas, to boost the Nigerian economy.

4) Nigeria Plans to grow its Gas Reserves from 206 trillion cubic feet to 600 trillion cubic feet

The Minister of State for Petroleum, at the 23rd World Petroleum Congress disclosed that the Nigerian government is planning to grow the country's gas reserves from 206 trillion cubic feet to 600 trillion cubic feet. The Minister noted that the plan to increase Nigeria's gas reserves would help position her among the countries with the highest gas reserves globally and also create a pathway to net-zero carbon emissions as gas has been declared a transition fuel.

The recently enacted PIA is a step in the right direction in boosting the development of the sector, though the issues on gas pricing highlighted in section 2 above, lack of adequate incentives to stimulate investments and continuous government intervention in the sector may need to be re-examined, to enable the sector reach its full potential.



² As declared by the Minister of State for Petroleum at the 23rd World Petroleum Congress in Houston, Texas, US.

Conclusion

Gas has the potential to power the anticipated growth of the Nigerian economy. However, there is still work to be done to fully unlock this potential. It is obvious that the Government also shares this perspective and is doing its part to grow the sector. There is still significant work to be done but the journey has already begun

It is important that Government continues to engage with all stakeholders to achieve the required growth in the sector with the base provided by the PIA.

How KPMG can help

KPMG has dedicated business units that support end-to-end business processes. We provide a wide range of services from 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, among others.

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³ Nigeria Oil and Gas Market (2022 - 27) | Industry Size, Share, Growth (mordorintelligence.com)