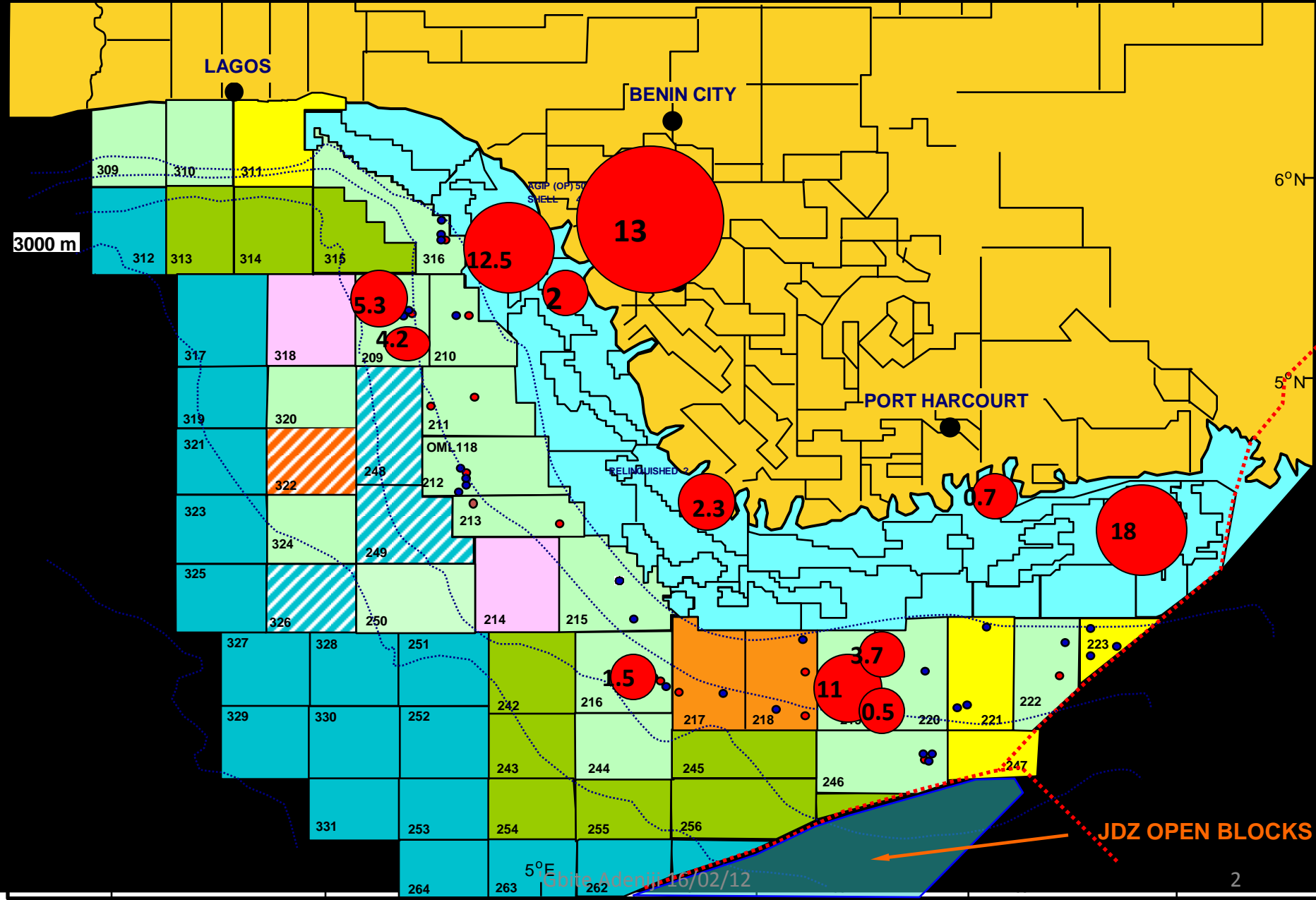


# Gas Sector Reforms in Nigeria

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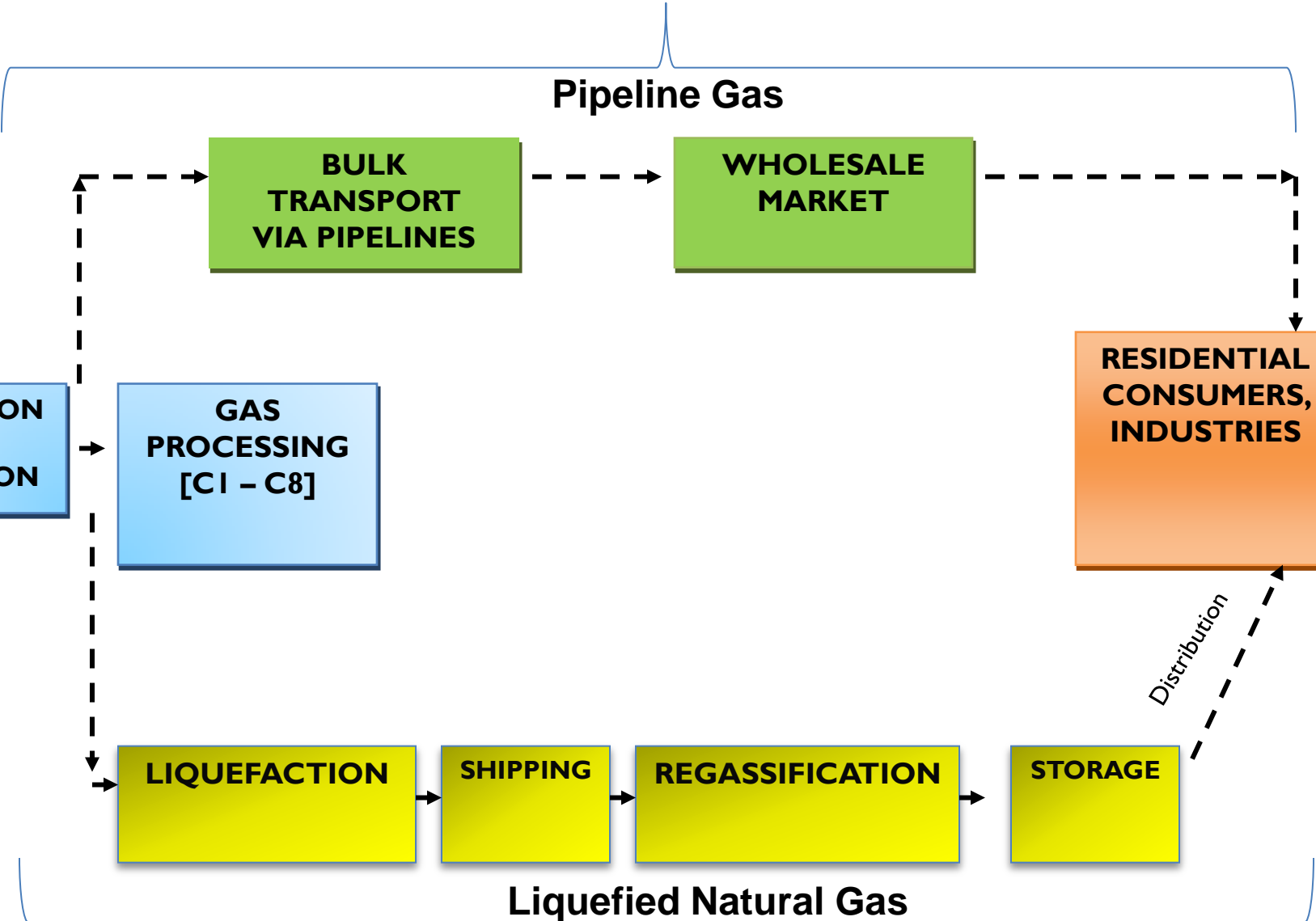
# ABUNDANCE: "A GAS PROVINCE WITH A LITTLE OIL"!!



# NATURAL GAS - Its applications

<b>Fuel</b>	Power plants  Industrial (boilers/furnaces)	➤ C <sub>1</sub> /CH <sub>4</sub> - Methane
	Residential applications (LPG)  Transportation (CNG)	➤ C <sub>3</sub> - Propane ➤ C <sub>4</sub> - Butane  ➤ C <sub>3</sub> - Propane ➤ C <sub>4</sub> - Butane
<b>Chemical Feedstock</b>	Fertilisers [Ammonia/Urea]  Methanol  Petrochemicals (ethylene & polypropylene)	➤ C <sub>1</sub> /CH <sub>4</sub> - Methane  ➤ C <sub>1</sub> /CH <sub>4</sub> - Methane  ➤ C <sub>2</sub> - Ethane ➤ C <sub>3</sub> - Propane

# GAS SUPPLY VALUE CHAIN



# DATELINE: 1999

## - A PARADOX: Legal & Regulatory Barriers

- No sector policy
- No sector - specific legal and fiscal framework
- No treatment of gas as a separate hydrocarbon in the Petroleum Act
- Absent: a proper regulatory framework including the provision of third party access, pipeline ownership and tariff structure, gas transportation code etc.
- No recognition of the constituent activities within the gas chain – production, processing transmission, distribution and supply of gas
- Absent: laws to prevent abuse of market power or anti-competitive behaviour
- Conflicting role of the FGN – [sector regulator and commercial participant]
- Co-ordination issues - multiplicity of agencies within the FGN structure (MPR/DPR, NNPC/NGC, MoE, MoF, NEPA, BPE, etc.)

# DATELINE: 1999

- Resource largely flared and unutilised
- A large portion of the country unserved with infrastructure
- Fiscal regimes counter – productive [significant losses in Govt share of economic rent; export gas projects subsidised from Government share of oil taxation; a barrier to non-oil investors & new entrants]
- Pricing barriers - gas prices generally uneconomic for investors
- Credit risk prevalent in the domestic sector
- **RESULT:** An unviable, risk replete gas market
- **THEREFORE:** Very limited gas penetration

# WHAT NEEDED TO BE DONE

- Develop a **gas policy** to address the issues
- Develop a robust **legal and regulatory framework** that is attractive to private investors and that benefits the citizens of the country
- Undertake **fiscal reform** to incentivise a broad range of projects and give more take to Government
- **End gas flaring** & address all other environmental issues
- Extend gas penetration in **domestic market** and facilitate development of power sector in particular
- “Level the playing field” between oil producers and other parties involved in the domestic gas business

# **RESOLVING THE BARRIERS - The Reform Initiatives**



# GAS SECTOR REFORM IN NIGERIA

- Very broad industry consultations over the past 10 years
- Extensive and often acrimonious discussions between stakeholders
- **Key contentions**
  - Retention of the current status - “commanding heights”/central control vs. move towards an ultimate private sector – led domestic gas market
  - Retention of incumbent arrangements vs. need to encourage new entrants
  - Gas to power linkage

# NIGERIAN NATURAL GAS STRATEGY

- An agenda for the reform of the gas sector

- **Market diagnostic**

- Current conditions
- Existing and Potential Markets
- Institutional, Legal, Regulatory and infrastructural Constraints
- Tariffs and Prices
- Fiscal Study

- **Restructuring Options**

- Market structure
- Enhancing Participation of Private Sector

- **Implementation Plan**

- Comprehensive changes to the legal, policy, regulatory and institutional framework for gas utilization to address the absence of clear rules for investments
- The program should establish the foundation for investments of up to \$20bn over 10 years

# THE NIGERIAN GAS MASTER PLAN

- Suite of solutions to address gas commercialisation:
  - the development of the domestic gas market
  - availability of gas
  - gas pricing
  - gas infrastructure development
  - legal regulatory fiscal and policy issues
  - commercial and technical discipline in the gas sector

# GAS POLICY

- National aspirations clarified in a gas policy document developed in 2006:
  - Address environmental issues
  - Generate as much revenue from gas as from oil within the decade
  - Create an operating environment that encourages growth of existing local gas markets, and development of new ones (e.g. CNG) in a manner consistent with export aspirations

# NIGERIA: The National Gas Supply And Pricing Policy & The National Gas Supply And Pricing Regulations 2008

- Establishment of a **Department of Gas Regulation** for the regulation of wholesale gas supply into the domestic market
- A **Domestic Gas Obligation** on all licencees of petroleum concessions to address domestic gas supply availability
- Failure to comply with domgas obligation;
  - financial penalties
  - no approval for gas export projects
  - no approval for any other gas project
- Introduces a Gas Pricing framework based on the ability of a strategic grouping of demand sectors to bear the price
  - **Strategic Sector** - Cost of supply pricing model
  - **Feedstock Sector For Export** - Alternative Fuel pricing model
  - **Industrial/Commercial Sector** - End product pricing model

# THE DOMESTIC GAS AGGREGATOR

- **Established** - January 2010 as the Gas Aggregation Company of Nigeria
- Empowered to:
  - implement the Domestic Gas Supply Obligation
  - ensure the implementation of the National Gas Pricing Framework
- **Activities**
  - Matches Buyers and Sellers
  - Conduct Due Diligence on Buyers
  - Coordinate Sellers & Buyers
  - Manage the escrow arrangements
  - Measures Buyer performance for Govt sanction of errant parties
  - Transitional role expedient for development of a gas market in Nigeria and critical for the early success of the Gas Master Plan

# **THE NIGERIAN GAS SALE & AGGREGATION AGREEMENT (GSAA)**

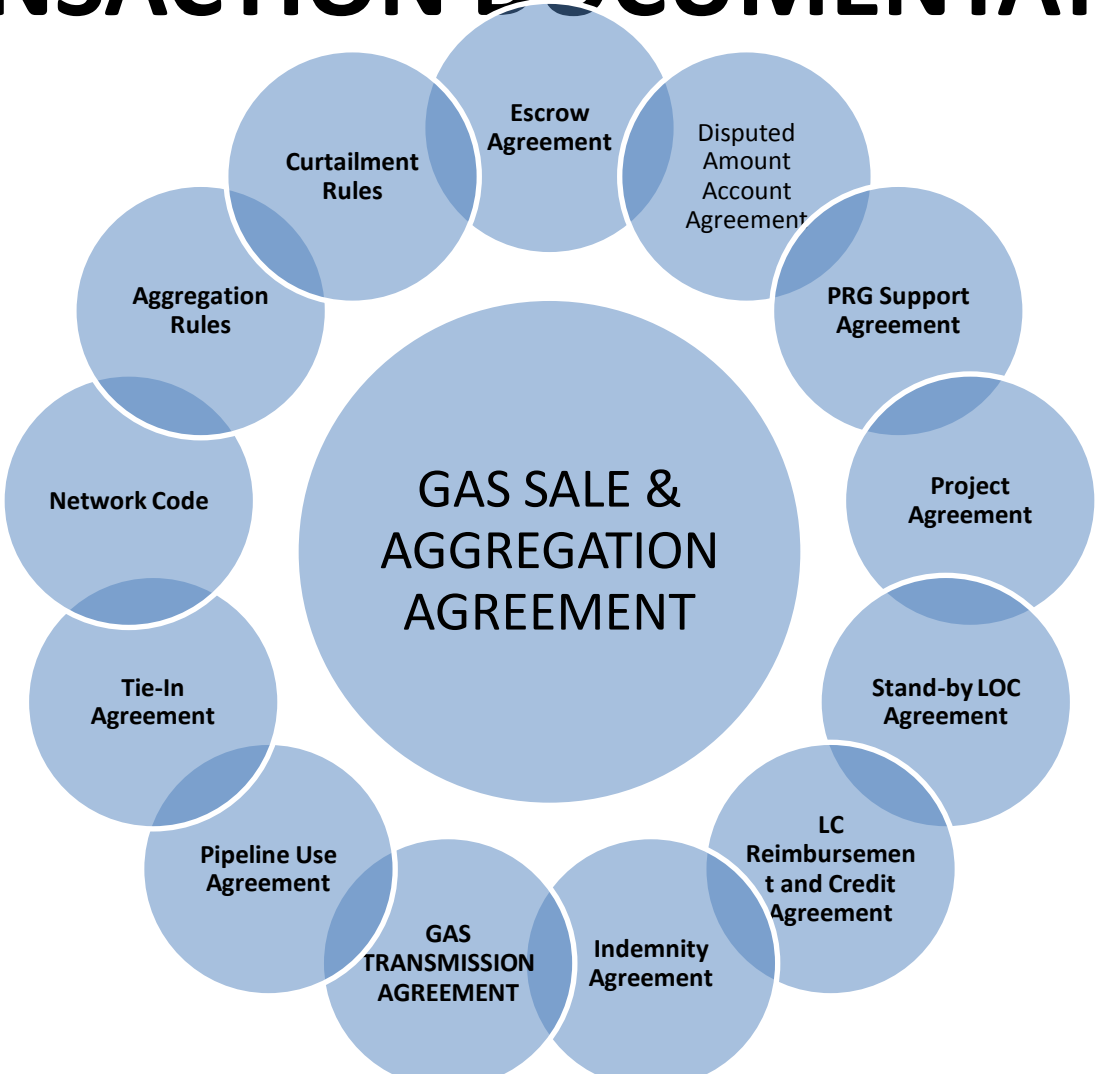
- Keystone of the Nigerian Natural Gas Industry - link between upstream production/supply of gas and downstream consumption
- Designed to present common terms for wholesale Gas Supply in Nigeria
- Developed over a 3 year period
- Multi – stakeholder effort (gas suppliers, buyers, NNPC, Government, The World Bank)
- First major Agreement signed June 15, 2010. Several to follow
- Major landmark in Nigeria & globally significant

# THE NIGERIAN GSAA

- **Essentially a sale of goods contract**
  - Title to the Gas [outright proof + warranty]
  - Risk in the goods
  - Quantities [Depletion or Supply Contract? DCQs & ACQs]
  - Duration and renewal of the contract
  - Transfer of title and risk in the goods
  - Quality and Fitness for purpose
  - Force majeure
  - Remedies and indemnification
- **Captures:**
  - The technical issues around the Seller, Buyer, Transporter and the ultimate Consumer [risk – HSE issues in production, delivery and transportation of the gas; gas specification, delivery point, co-mingling, measurement, testing, maintenance, liabilities etc]
  - Commercial issues [gas/petroleum economics – price, invoicing]
  - Policy and regulatory considerations
  - Macroeconomic issues in the jurisdiction
  - Financing considerations [corporate, banking and project financing]
  - Exogenic events [geopolitics/natural disasters/global macroeconomics]

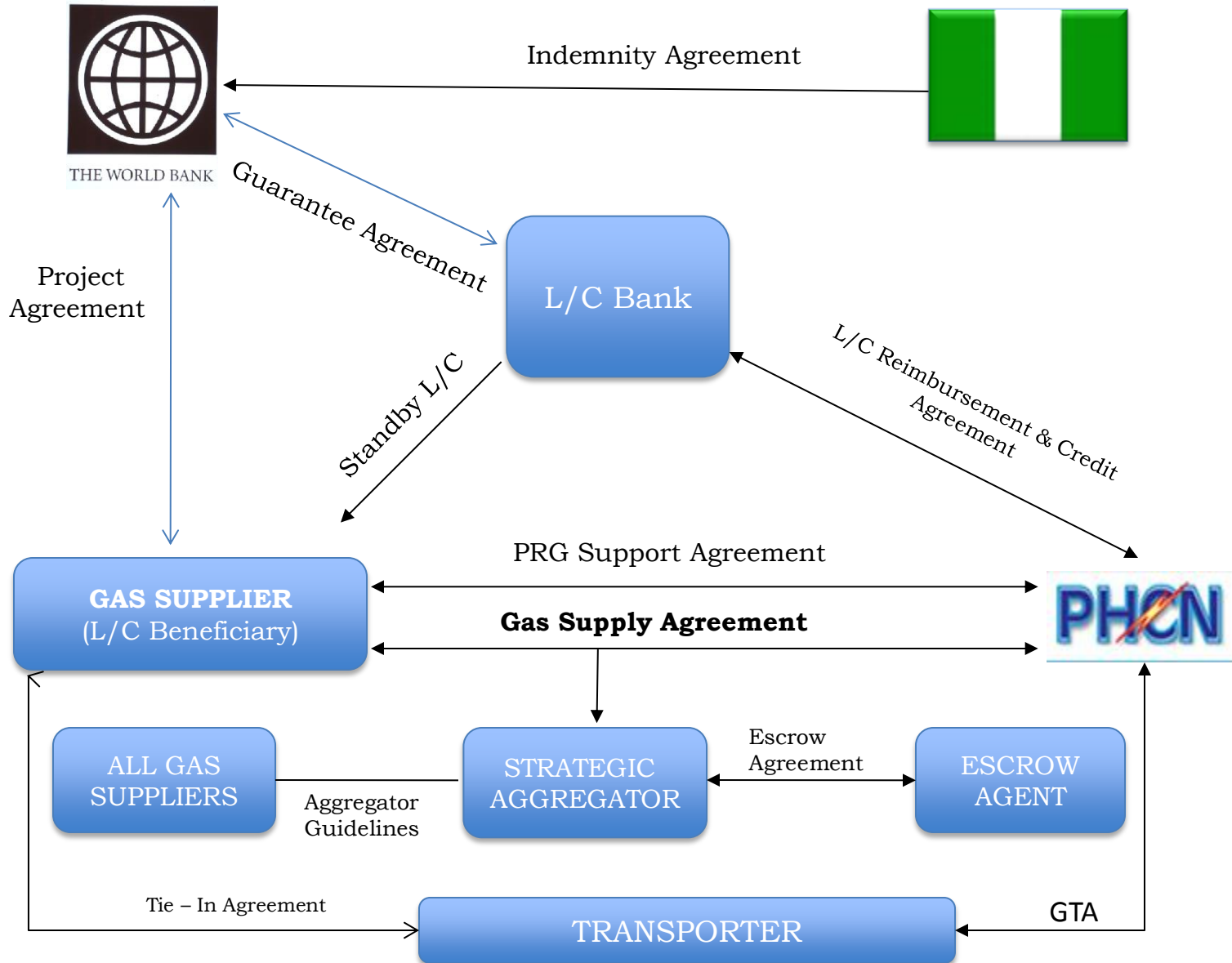


# NIGERIAN WHOLESALE GAS TRANSACTION DOCUMENTATION

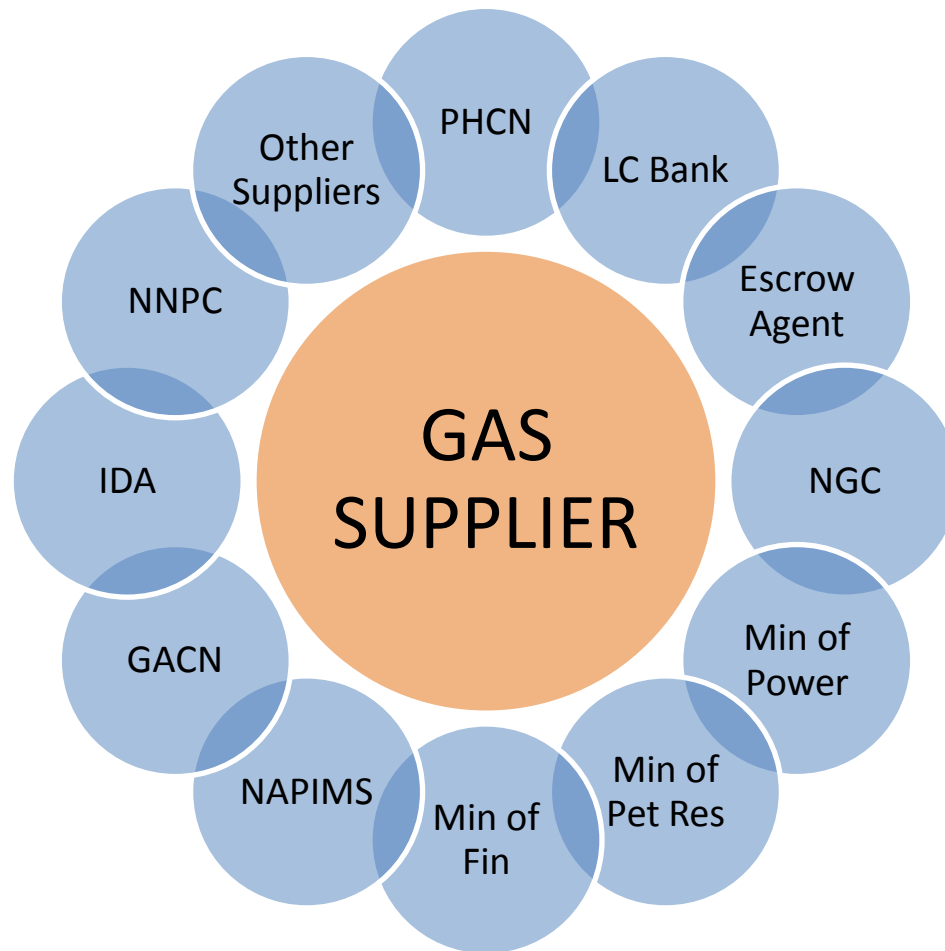


# NIGERIAN DOMESTIC GAS SALE TRANSACTION STRUCTURE

## Gas sale to FGN – OWNED Power Plants



# TRANSACTION PARTIES



**CONCLUDING .....**

# THE DRAFT PETROLEUM INDUSTRY BILL

## - What should we expect from it?

- Establishment of an independent regulator
- Introduce a licensing system for activities throughout the chain
- Replace central ownership of the midstream with free entry
- Introduce network [3PA] access principles for sector infrastructure
- Adopt the gas pricing reform
- Adopt reform efforts on gas availability/security of gas supply
- Address gas flaring
- **Consolidates the Downstream Gas Bill and all reform efforts into a single document**

# **GAS SECTOR REFORM INITIATIVES IN NIGERIA**

## **2003 - CURRENT**

- **2000 – 2006: Sector Reform**
  - **Nigerian Natural Gas Strategy (2003)**
  - **Nigerian Natural Gas Policy (2004)**
  - **Draft Natural Gas (Fiscal Reform) Act (2005)**
  - **Draft Gas Development Agreement for PSCs (2005)**
  - **Draft Downstream Gas Act (2005)**
- **2008: - Nigerian Gas Master Plan**
  - **National Domestic Gas Pricing & Supply Policy**
  - **National Domestic Gas Pricing & Supply Regulations**
- **2009: - The Strategic Domestic Gas Aggregator**
- **2009: - Model Commercial Contracts**
  - **Model Gas Sale & Aggregation Agreement**
  - **Model Gas Transmission Agreement**
  - **Model Escrow Agreement**
- **Very Recent: Emerging attention to a commercial framework for Emission Trading/CERs**
- **Very Recent: **The draft Petroleum Industry Bill****

**END**

**THANK YOU FOR LISTENING!!**