

FLARE REDUCTION IN NIGERIA

– Recent Developments and Impacts on Flare Reduction

Gbite Adeniji

ADVISORY

Legal Consultants

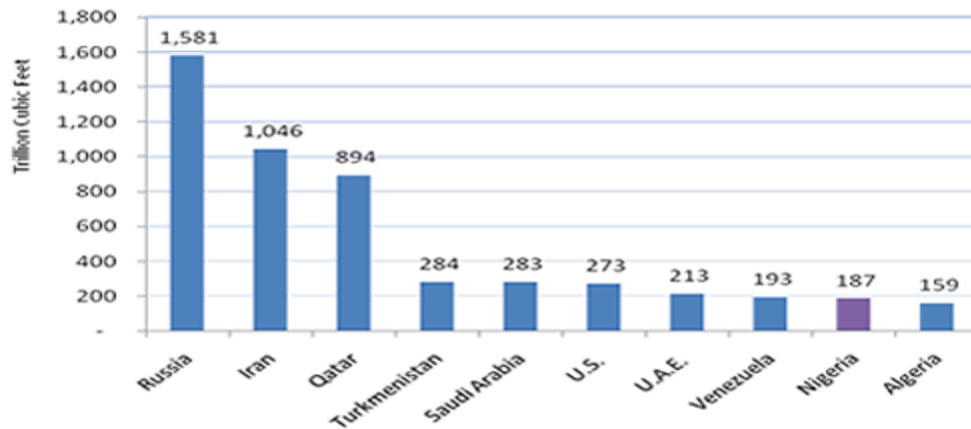
(adeniji@advisoryng.com)

GGFR - London

October 25, 2012

Gas Flaring in Nigeria

Proven Natural Gas Reserves, end - 2010

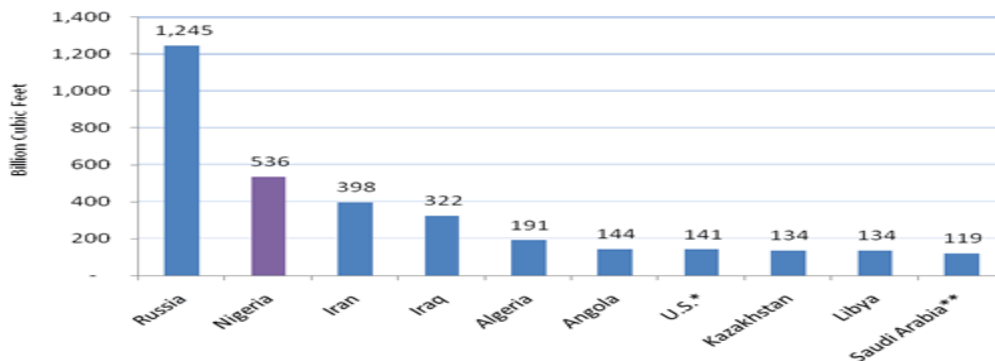


Source: BP Statistical Review of World Energy 2011

- At 187 TCF of proven natural gas reserves Nigeria is the 9th largest globally and largest in Africa.

- Accordingly to the IEA Country Analysis 2011, Nigeria produced 820 Bcf of natural gas and flared 536 Bcf in 2010.

Natural Gas Flaring, 2010



Source: National Oceanic and Atmospheric Administration (NOAA)

- NNPC estimates value of flared gas as US\$2.5billion annually

DATELINE: 1999

3

- A large portion of the country unserved with infrastructure
- Counter – productive fiscal regimes
- Pricing barriers
- Credit risk prevalent in the domestic sector
- **Result:** An unviable gas market
- **Therefore:**
 - i. Very limited gas penetration
 - ii. **Resource largely flared and unutilised**



Q: WHAT TO DO???

A: Comprehensive Sector Reform!

THE NIGERIAN GAS MASTERPLAN:

Solutions to address gas commercialisation ⁵

- Develop a **gas policy**
- Develop a **robust legal and regulatory framework**
- Undertake **pricing reform**
- Undertake **fiscal reform** to incentivise a broad range of projects
- Encourage investment in infrastructure
- Encourage **commercial and technical discipline** in the gas sector
- **End gas flaring**

GAS SECTOR REFORM INITIATIVES

6

- **2000 – 2006: Sector Reform**
 - Nigerian Natural Gas Strategy (2003)
 - Nigerian Natural Gas Policy (2004)
 - Draft Natural Gas (Fiscal Reform) Act (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
 - Gas Network Code

- **Recent:**
 - Emerging attention to Emission Trading/CERs for gas projects
 - National Gas Specifications

- **Very Recent:** **The draft Petroleum Industry Bill**

OTHER INITIATIVES

- Domestic Gas Supply Obligation
- Punitive penalties for gas flaring (\$3.50/mmscf)
- Unprecedented funding for upstream gas projects and new transmission infrastructure
- Development of 12 public sector – owned greenfield electric power plants
- Electric power sector reform
- World Bank Partial Risk Guarantees for gas sale to the power sector



WHAT NEXT??

THE PETROLEUM INDUSTRY BILL

- proposals for effective regulation

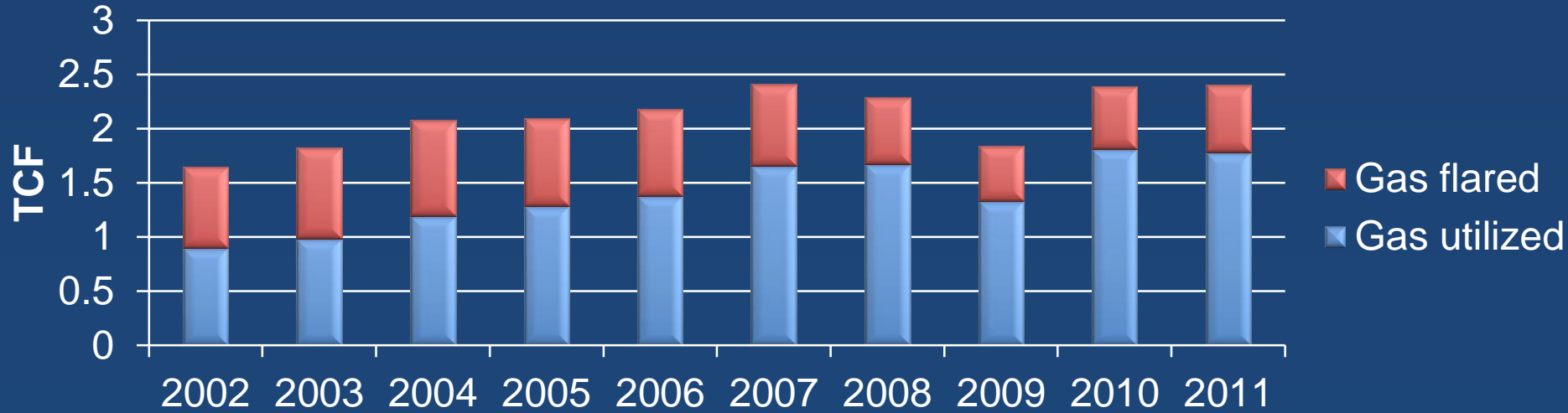
9

- An independent upstream regulator responsible for monitoring and enforcement of gas flaring
- Flare out date to be stipulated by regulations
- Flare penalties to be not less than the value of gas flared
- Gas flaring permitted for not more than 100 days
[in cases of start-up, equipment failure, shutdowns, safety flaring or due to inability of gas customers to offtake gas]
- Gas utilization plans must be approved before award of production leases and such plans must be in consonance with domestic supply regime



CONCLUSIONS

Gas Flaring is reducing



NNPC Annual Statistical Bulletin (8/31/2012)

- Gas flared in 2011 was 26% of gas produced
- NNPC reports that the volume of gas flared in 2002 was **0.753 TCF**, while in 2011 is was - **0.619 TCF**
- Means that in relation to production, the percentage of gas flaring is reducing, whilst gas production/utilisation has increased in response to an improving domestic gas market

Conclusions. . . .

- **Nigeria has adopted a comprehensive approach to the development of its domestic gas sector**

- **More gas offtake**

Several gas projects in Nigeria in the offing
[fertiliser/methanol/electric power generation/gas
processing/gas pipeline]

- **Less gas flaring**

- Gas flares are reducing
- As the investment climate for gas utilisation continues to improve, more (associated) gas will be utilised
- Expect less gas flares

END

THANK YOU FOR LISTENING!!

ADVISORY

Legal Consultants

33B Adebayo Doherty Street

[Off Admiralty Way]

Lekki Phase 1

Lagos

adeniji@advisoryng.com



+234 803 453 7323

+234 803 975 8828