Nigerian Gas Sector Watch Volume 2

KPMG in Nigeria

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This publication provides information on developments in the Nigerian Gas Sector space during the two quarters ended September 2020. It also features a review of the Framework for the National Gas Expansion Programme which was released by the Central Bank of Nigeria (CBN) on 4 September 2020. We hope you find the information and insights in the publication useful.

Introduction

The Federal Government of Nigeria (FGN) declared 2020 as the year of gas. Following the declaration, the FGN has continued to make concerted efforts through the Ministry of Petroleum Resources (MoPR), Ministry of Finance and the CBN to improve its commitment towards significant flared gas reduction and driving gas utilization for domestic and industrial usage. Below are some of the useful information and status of the various initiatives around gas, being pursued by the government.

1. Nigeria's Proven Gas Reserves

According to the Department of Petroleum Resources (DPR), the country's proven gas reserves has increased by 0.57% from 202tcf recorded in January 2019 to 203.16tcf as at June 2020. This pronouncement by the DPR puts to rest the controversies around the figures being put out in the public space by stakeholders in the industry. The DPR is also set to achieve a proven reserves target of 210tcf by 2025 and 220tcf by 2030. The above figures only serve to validate Nigeria as a gas province with some oil reserves. Nonetheless, the FGN should continue to drive the implementation of the various policies that are geared towards revitalizing the gas sub-sector, to enable the country benefit from the monetization of this vast resource.

2. Nigeria Gas Transportation Network Code (NGTNC) – Go Live

Following the launch of the NGTNC to deepen the growth of domestic gas market which became effective in February 2020, the FGN virtually flagged off the operationalization of the NGTNC in August 2020. This was in line with the FGN's 2020 strategy to drive key policies and regulatory initiatives that would enhance gas reserves growth to support domestic and export projects. The Minister of State for Petroleum Resources (the Minister) highlighted during the virtual Go - Live that the implementation of the NGTNC and other related interventions by the FGN (i.e. National Gas Expansion Programme (NGEP) and the Nigerian Gas Flare Commercialisation Programme (NGFCP)) would lead to improved gas supply to power, growth of gas-based industries, domestic Liquified Natural Gas, Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) penetration, to enhance Government's revenue from the gas sub-sector.

One of the objectives of the NGTNC is to unleash the potentials of accelerated growth to stimulate investment opportunities and national economic development. Thus, for ease of operationalization of the NGTNC, the DPR has established a Network Code Electronic Licensing and Administration System (NCELAS) portal to process all licenses required for operating gas transportation arrangements and administration of all regulatory roles, required for the optimal performance of the Network Code. The DPR has also commenced the issuance of license to gas transporters, shippers and agents, via the network code, and the migration of existing gas transportation agreements into the network code regime has begun[1].

Despite the challenges posed by the COVID-19 Pandemic, the traction achieved by the FGN in implementing some of the policies introduced for the sector in 2020 (dubbed as the "year of gas"), has made stakeholders become more optimistic that the FGN is dedicated to stimulating the necessary investments in the sub-sector.

3. The National Gas Expansion Programme (NGEP)

The challenges bedeviling the domestic gas subsector, particularly, the absence of a clearly defined framework, have continued to constrain investment in the sub-sector, culminating into the low level of production and utilization of gas, as a clean alternative source of domestic energy in Nigeria. Thus, in a bid to steer the gas subsector for optimal performance and increased utilization of Nigeria's vast gas resources, the FGN launched and subsequently inaugurated the NGEP committee in January 2020.

[1]https://www.dpr.gov.ng/dpr-to-fast-track-integration-of-domestic-gas-market-hubs-into-ngtnc/

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The mandate of the Committee is to reinforce and expand domestic gas supply and stimulate demand through effective and efficient mobilization and utilization of available gas assets, resources and infrastructure in the country. The Committee is also expected to come up with strategies to reform and implement a market-based and cost-effective gas distribution.

It is expected that through the effective implementation of the NGEP, CNG and LPG would become the fuels of choice for transportation, domestic usage, and captive power generation. This is especially so given that CNG and LPG are more environmentally friendly than other heavier hydrocarbons - thus a critical component of sustainable energy generation and, by extension, development of industrial clusters.

4. Adoption of LPG Cylinder Recirculation Model to increase LPG penetration

The FGN has reiterated its objective of achieving 5 million metric tonnes (MT) annual consumption of LPG by 2022[2]. In order to achieve this objective within the defined timeline, the FGN has indicated its commitment towards adopting the Cylinder Recirculation Model (CRM) to increase LPG penetration in Nigeria. Under the CRM model, cylinders will be delivered and retrieved by the marketers who will also be responsible for the maintenance and refurbishment of the cylinders, thus making LPG accessible to a whole new segment of non-LPG users, at the least possible cost.

The CRM is a paradigm shift from the current Consumer Cylinder Owned Model, where LPG consumers purchase and own the cylinders, and refill the gas when necessary. Expectedly, CRM will eliminate the consumers' up-front purchase of LPG cylinders which in some cases are substandard, thus replacing it with a cylinder exchange, whereby the consumer only pays for the content and not the cylinder.

The model is inherently capable of significantly lowering the bulk cost of switching from other sources of fuel to LPG, improving the safety of recirculated cylinder, and increasing the distribution of LPG to remote locations for household usage.

5. CNG as a Cheaper and Cleaner Alternative to Gasoline for Transportation

The Nigerian National Petroleum Corporation (NNPC) has announced the activation of CNG refill stations for motorists across all the 36 states and the Federal Capital Territory. Consequently, the DPR has commenced the audit of fuel retail outlets with the aim of segmenting them into different categories. Based on the outcome of the audit, about 9,000 retail outlets, representing 27 per cent of total number of retail outlets in Nigeria were listed as Category 1, and identified as suitable for integration of modular add-on gas dispensing plant based on robust safety assessment and technical considerations by DPR. The gases intended to be dispensed include LPG, CNG and LNG, depending on the type of vehicle/mechanical device. Operators of retail outlets in Categories 2 and 3, whose facilities do not meet the minimum requirements, or do not have sufficient land area, are encouraged to apply for stand-alone LPG, CNG, LNG or Autogas facilities (full-scale or modular) under an incentivized regulatory regime.

It is expected that the integration would promote gas as a replacement fuel for automobiles and domestic usage, and in the long run, conserve the foreign exchange expended on imported fuels. In addition, gas is generally considered as a cheaper, cleaner and more-environmentally friendly alternative to petroleum motor spirit (PMS), dual purpose kerosene (DPK) and automotive gas oil (AGO). Given that most automobiles in Nigeria are not configured to run on Autogas, the government plans to collaborate with various stakeholders on the most efficient way to reduce the cost burden of converting existing vehicles to run on Autogas. Nonetheless, the NGEP committee has been charged with the mandate to reinforce and expand domestic gas supply to stimulate demand through an efficient and effective mobilization and utilization of all available assets, resources and infrastructures in the country.

The collocation of LPG and CNG modular plants at fuel stations would increase LPG penetration and accessibility. However, the real issue would be apathy of people towards change – from PMS to LPG/Autogas and CNG as the alternative sources of transportation fuel. In addition, there are already heightened safety concerns on the adoption of LPG as domestic fuel, given our safety records as a country in general. In response, the DPR has approved the deployment of skid-mounted modularized/containerized LPG/Autogas handling systems and other intrinsically safe systems for gas storage and handling, to promote affordability, accessibility and availability of the products.

6. FGN Steps up Sale of Gas Assets

The FGN, through the DPR, has announced its plan to commercialize 96 gas flare points in a bid to generate additional revenue and expand the domestic consumption of gas. The commercialization of the flare sites has a dual purpose of reducing gas flaring in line with the NGFCP and expand gas utilization based on the NGEP. During the first quarter of 2020, about 200 Companies had indicated interest in taking over 45 out of the 178 gas flaring sites in the country. However, investors were unable to access the flare sites due to COVID-19 curtailment measures. It is expected that the sites would be visited and allocated as soon as normalcy returns to the public health space.

As part of the DPR's efforts to monitor and monetize flare gas, it has deployed fiscal meters to monitor gas quality and monetize the gas produced, and allocation meters to measure the utilization of the produced gas. Any gas flared beyond an acceptable level and allowable volume attracts charges. The data collected by the meters are also harnessed to determine the financial viability of the flare sites.

Whilst the level of flare gas has remained constant at 10% for about 3 years[3] , it is expected that this volume will further reduce with the commercialization program. It is therefore important for the DPR to conclude the process of allocating the flare sites to the interested bidders, in order to jumpstart activities in this space and potentially increase the amount of gas available for domestic and industrial usage.

[2]https://economicconfidential.com/2020/03/nigeria-exceeds-cooking-gas-consumption/

[3]https://www.dpr.gov.ng/government-steps-up-sale-of-crude-gas-assets-with-96-flare-sites/

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7. Framework for the Implementation of Intervention Facility for the NGEP

As part of its effort to harness finance to the critical sectors of the Nigerian economy, the CBN recently announced a ₦250 billion intervention facility to help stimulate investment in the gas value chain in line with the objectives of the NGEP. The Intervention Facility (or the Facility) is aimed at:

- Improving access to finance for private sector investment in the domestic gas value chain;
- Stimulating investment in the development of infrastructure to optimize the domestic gas resources for economic development;
- Fast-tracking the adoption of CNG as fuel of choice for transportation and power generation, as well as LPG as the fuel of choice for domestic cooking, transportation and captive power;
- Fast-tracking the development of gas-based petrochemical ventures to support large industries, such as agriculture, textile, and related industries;
- Providing leverage for additional private sector investment in the domestic gas market; and
- Boosting employment creation across the country.

Depending on the scale of the project, businesses can access the intervention funds either through the Power and Airlines Intervention Fund (PAIF), the Targeted Credit Facility scheme operated by the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) Microfinance Bank, or any other Participating Financial Institution (PFI) under the Agribusiness/Small and Medium Enterprises Investment Scheme (AgSMEIS). Specifically, aggregators, manufacturers, processors, wholesale distributors and related activities (Category A) shall be funded under the PAIF Scheme, while the SMEs and retail distributors (Category B) shall be funded by NIRSAL Microfinance Bank (NMFB)/ PFIs under AgSMEIS.

A quick overview of the intervention facility is provided below:

Loan Type	Category A	Category B
Term Loan**		
Amount:	≤₦10 billion per obligor	≤₦50 million per obligor
Tenor*:	≤10 years	≤5 years
Working Capital Loan**		
Amount:	≤₦500 million per obligor	≤₦5million per obligor
Tenor:	1 year; renewable for 2 years	1 year, renewable for 2 years

*** Interest Rate: Maximum of 5.0% p.a. (all inclusive) up to 28-Feb-21, thereafter 9% p.a. (all inclusive) from 1-Mar-21*

**This includes a moratorium of 2 years on the principal.*

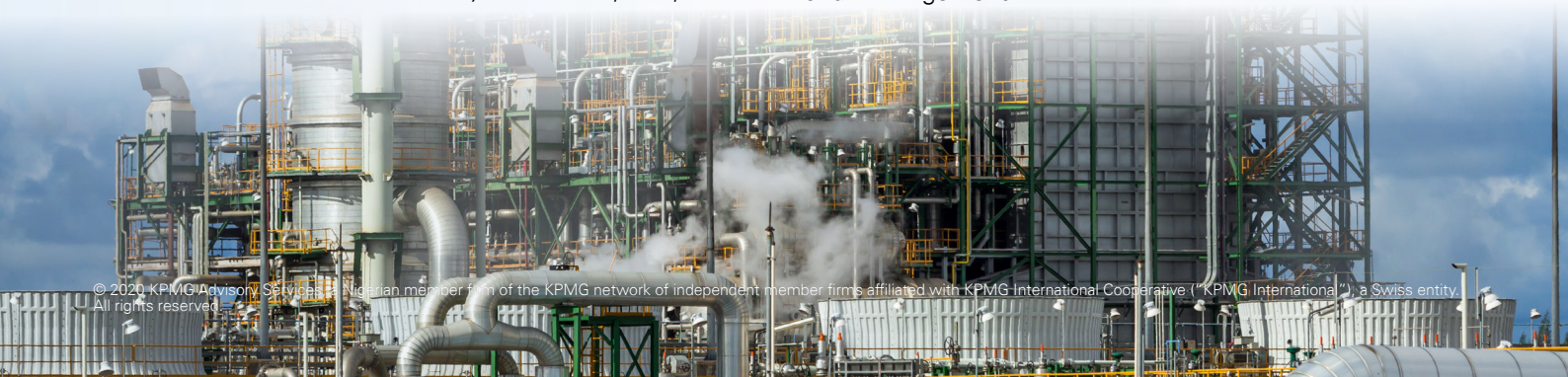
Based on the Framework, some of the eligible activities include:

- Establishment of gas processing plants and small-scale petrochemical plants, gas cylinder manufacturing plants, L-CNG regasification modular systems, auto gas conversion kits or components manufacturing plants, and CNG primary and secondary compression stations.
- Establishment and manufacturing of LPG retail skid tanks and refilling equipment
- Development/enhancement of auto gas transportation systems and conversion and distribution infrastructure
- Enhancement of domestic cylinder production and distribution by cylinder manufacturing plants and LPG wholesale outlets;
- Establishment/expansion of micro distribution outlets and service centers for LPG sales, domestic cylinder injection and exchange; and
- Any other mid to downstream gas value chain related activity recommended by the MoPR.

The applicant under each category is expected to submit its application through any PFIs or NMFB to the CBN. Expectedly, the PFI or NMFB would carry out the due diligence on the application based on documents submitted, which would include relevant endorsements and permits from the MoPR, together with the business and credit considerations of the applicant. Afterwards, the application would be forwarded to the Credit Committee of the CBN for approval. On its part, CBN would conduct an internal review of the application to ensure that it complies with the guidelines, and only applications that meet the requirement will be processed. Thereafter, it is expected that the CBN would release the approved sum to the PFIs or NMFB according to the mutually agreed disbursement schedule tied to specific milestones. Upon release of the fund, the PFI or NMFB would disburse the approved sum to the successful applicants within 5 working days.

The successful applicants or beneficiaries are expected to adhere strictly to the terms and conditions of the Facility and ensure prudent utilisation of the funds for the purpose for which it was granted. The facility is to be repaid based on an approved repayment schedule and beneficiaries are expected to keep updated records of their operation and financial activities, as they would be required to grant the PFIs / NMFB/ CBN access to the project and records. The Intervention Facility is being managed by the Development Finance Department of the CBN, while all the stakeholders including the PFIs, MoPR and the beneficiaries are required to perform their respective responsibilities as highlighted under the Framework.

It is imperative to note that whenever the facility is repaid or otherwise discontinued, the PFIs / NMFB is obliged to return any funds with it under the Framework to the CBN within three (3) working days, providing necessary details of the Facility. Moreover, applicable sanctions as determined by the CBN shall be pronounced in the event of an infringement.



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Whilst the above intervention is a welcomed development, some stakeholders have expressed their reservations about the Facility, given the potential for abuse and manipulations. For instance, the Framework for accessing the loan is currently subsumed under the PAIFs and AgSMEIS, and there are concerns on the ability of eligible applicants to access the loan under those two schemes. Furthermore, the acceptable collateral for projects to be financed under the intervention is at the discretion of the PFIs and NMFB, which may be too stringent for the applicants to provide.

Conclusion

The gas subsector has continued to receive increased attention from all stakeholders in recent times, especially, given the potential of the subsector to ease the forex pressure associated with importing PMS for domestic use. It is instructive to note that the Minister has set up a committee to examine the domestic gas pricing framework in a bid to stimulate additional investment in the subsector, in addition to the initiatives discussed above. Nonetheless, it is important that the FGN accelerates its process of allocating the gas flare sites to the successful bidders in order to further lower the volume of gas flared whilst potentially increasing the amount of gas available for domestic and industrial usage. In addition, the DPR should step up its efforts on the CRM and the discussion with stakeholders on the most efficient ways of achieving the desired utilization rate of Autogas as a substitute for PMS.

How KPMG can help

KPMG has dedicated business units that support end-to-end business processes. We provide a wide range of services from outsourcing to transaction advisory services, preparation of statutory accounts, maintenance and preparation of employee payroll, monthly management reporting, statutory audit of financial statements, and tax compliance and advisory services among others (which include preparation and submission of statutory tax returns, etc.).

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