

The Power Sector Gas Issues and the Presidential Executive Order 40 of 2024

1. This is however dependent on the statistics considered as statistics analyst have slightly differing data.

Nigerian Gas Historical Background

The demand and consumption rate of electricity in Nigeria is approximately between 180,000mw-200,000mw, exceeding the country's current generating capacity of around 13,000mw-22,000 (the generated electricity is mostly stranded and or unavailable). The country's transmission capacity stands at 7,500mw-9,000mw¹ whilst its current grid contracted capacity is around 3,800mw-4,000mw.

However, recently, power generation had dropped substantially from the approximated 4,000mw transmission grid levels, for reasons attributable to a number of challenges with gas, being the prime challenge. Thus, it appears that issues surrounding the unavailability of natural gas, have, thus, yet again, taken center stage in the inadequacy of electricity supply in Nigeria.

Historically, Nigeria, despite its huge gas reserves, had struggled with producing, processing and distributing natural gas to where it is needed. Two (2) historical reasons have been responsible for this. One of these reasons is the poor commercial arrangement which had existed for a very long time, in relation to gas.

For so long, natural gas, despite its abundance, in Nigeria, was neglected in terms of its production and general commercial exploitation. That neglect extended to its commercial arrangements such that the former government-owned Behemoth power company was vested with the power to buy gas at commercially unsustainable prices from gas producers. Being the major consumer of gas at the point discouraged gas producers from investing in domestic gas production, processing and transportation.

Gas Infrastructural and Commercial Challenges

Sequel to the above and, apart from the fact that there was no usable gas (processed gas), the infrastructure for harnessing natural gas was not there. In fact, until relatively recently, there were two (2) gas pipelines system (though insufficient) that were not integrated. These are the Western- Escravos- Warri-Lagos Pipeline, and the Eastern Pipeline.

These pipelines systems were not integrated until the recent integration and addition of, a Northern gas pipeline network which currently being extended to Abuja, Kaduna and Kano through the Ajaokuta, Kaduna Kano pipeline project (the "Akk Pipeline").

The Obiafu-Obrikom-Oben pipeline ("OB3 Pipeline") only recently, connected the Eastern network to both the Western and the Northern networks. Because of the relatively low demand and poor commercial arrangement in the country, gas producers invested in gas export projects and in particular liquefied natural gas, and left municipal pipelines and the likes unattended to.

The situation was such that even when gas pricing improved, the National Electric Power Authority (notoriously referred to as 'Never Expect Power At All'), the government owned Behemoth, together with its successor, the Power Holding Company of Nigeria incurred, overtime, gas debts running into billions of Naira.

Thus, gas producers were indebted and stopped delivering gas to the domestic market and as earlier explained, no one in the private sector was really developing gas infrastructure. Government also contributed to this defect as it was not doing enough in terms of building the gas infrastructure backbone.

The Power Sector Connection

There is a strong connection between the power sector and natural gas in Nigeria because most of the power plants in the country are thermal gas-fired plants and require natural gas to run. Hence, when there is insufficient gas or no gas at all, it would adversely impact the availability of electric power.

Moreso, a proper consideration will reveal that a large fraction of the power plants connected to the national transmission grid are gas fired power plants. Hence, challenges around natural gas availability, immediately an adversely impacts electric power availability in the country. As stated above, the domestic gas sector has historically been unattractive.



2. Nigeria currently has the 9th largest natural gas reserve in the world.

More Arguments for Gas

With energy transition taking center stage, it, at one point, became difficult to raise sufficient financing for natural gas. However, a significant number of countries in the world are gradually realizing that hydrocarbons, particularly natural gas will still play a key role as the World plans its transition to carbon-free existence. Hence, gas is popularly recognized as the primary transition fuel in the world, and the Federal Government of Nigeria (the "FGN") has in the last two decades or so, been doing a lot to push the gas narrative. First the year 2020 was declared the Year of Gas and the Years 2021-2030, the Decade of Gas.

Recently, also, Shell, one of the worlds leading oil and gas exploration and production companies, *announced plans to roll back its plans around energy transition and put forward its plans to invest more in natural gas*. Thus, highlighting the importance of gas and the possible opportunities for Nigeria, if harnessed, moreso, now.

Whilst efforts by the FGN to tackle gas-related obstacles have been ongoing, numerous challenges have unfortunately, remained unresolved. Among these challenges, are the lack of incentives for new field development stemming from apprehensions about existing debt burdens especially by the electric power sector (as alluded to, above), inadequate backbone infrastructure for gas transportation, and endeavors to handle gas involving concealed subsidies. The FGN under the leadership of President Bola Tinubu (the "President") is doing much more and recently issued certain orders and Presidential directives to promote the attractiveness of natural gas and the overall petroleum industry in the country.

Promotion of Attractiveness- Presidential Directive on Gas

The President issued directives relating to Gas Tax Credits ("GTC") and Gas Tax Allowance ("GTA") schemes applicable to different types of gas projects in Nigeria. The GTC applies to Non-Associated Gas ("NAG") greenfield developments with specific conditions regarding hydrocarbon liquids content and gas production timelines. For NAG projects, the GTC applies for a period of ten (10) years before transitioning into GTA. The GTA primarily applies to Non-Associated Gas greenfield projects starting production after January 1, 2029.

There are guidelines being set by the Nigerian Upstream Petroleum Regulatory Commission regarding the determination of hydrocarbon liquids content in NAG fields.

It is essential to also note that unused tax credits may be carried forward for up to three (3) years. Also, companies involved in gas utilisation are eligible for investment allowances based on actual expenditure on relevant plant and equipment.

There are certain restrictions and conditions for midstream gas companies to be eligible for the gas investment allowance. Additionally, there are provisions for commercial enablers for investments in deep water regions to achieve competitive returns.

Furthermore, the Nigerian National Petroleum Company Limited's shareholders are mandated to ensure the consideration and implementation of commercial facilitators for new investments in deep water regions.

Conclusion

Market forces and stark reality seem to be playing a role in pushing the gas narrative such that whilst countries of the world desire to create a carbon-free world, energy transition is likely to occur slowly particularly with natural gas as a crucial influence.

Nigeria with its huge natural gas reserves needs to exhaustively take advantage of this opportunity camouflaged as "Energy transition" (particularly due to the abundance of its natural gas reserves)². Whilst it does appear that the current administration is taking a cue in this regard, other steps should also be taken, including the settlement of legacy gas debts to ensure the attractiveness of gas to the power sector.

The FGN must not rest on its oars in terms of championing the development of critical gas infrastructure as seen with projects such as the OB3 Pipeline and the AKK Pipeline, amongst others.

It must also continue to ensure that it employs its best to make gas business attractive overall, and ensure that other issues bedevilling the power sector are dealt with more decisively.

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