

# Why domestic gas market remains less attractive

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Rate

Following several years of low gas utilisation experienced in the country, that is, in the period before 1999, the Nigerian gas sector, from the look of things, finally appears set for unprecedented growth in demand from the current 5 billion cubic feet per day to over 20 billion cubic feet per day by 2012.



This, compared with the global average, stakeholders scream, is by far the most aggressive forecast. This growth in domestic demand, observers note, is based on the projected 10 percent growth in the power sector, especially after the country's concerted efforts to achieve the expected 5 percent annual growth expansion in electricity generation by the industrial sector which pundits have applauded. They observe, though, that it is strictly in line with Nigeria's Gross Domestic Product (GDP)

growth forecast, targeted at increasing electricity generation capacity, believed to be about 60 percent gas-fired.

To this end, the recent rate of power build-up in the country is now thought to be most aggressive, when compared with the number of power plants under construction or evaluation, with the potentials to generate up to 16GW by 2010.

Consequently, the requirements for gas by the power sector are very significant compared to other sectors. The growth in demand is driven by three factors: the successful campaign by the Federal Government to attract gas-based investors to Nigeria; aggressive growth in the domestic power sector occasioned by the power sector reform; and increase in demand for gas in key export markets as the reserves in these countries continue to decline.

Rather unfortunately, however, oil companies which ordinarily control a significant share of the gas resources and infrastructure prefer the export of Liquefied Natural Gas. This is mainly due to the guarantee of supplies as well as security of value at the end of the downstream value chain, unlike the lack of confidence in the domestic market which currently obtains.

Key challenges, meanwhile, are domestic markets' third party access to their infrastructure, transfer pricing and the impact of third party suppliers without downstream interest, including sub-optimal infrastructure development.

Although the nation's natural gas reserves are estimated at about 184 trillion cubic feet (TCF), almost 40 percent of these reserves are not available in the short term, as they are stranded in gas caps and not accessible until long after the production of oil. The

available reserves left fall far short of the required reserves base to meet the outlined demand growth.

On this basis, non-associated gas reserves (NAG) will form the bedrock of short/medium term gas developments in Nigeria. Other commercial issues, such as lack of world-class agreements, unpaid debts, inability of buyers to pay and the perceived weakness of the Gas Sales and Purchase Agreement (GSPAs), contribute to making the domestic gas market less attractive, thereby preventing a sustained supply growth. A significant portion of the currently supplied domestic gas is not backed by standard GSPA. IOCs /NNPC are owed over several billions by the domestic market, largely PHCN, from supplies made over the last few years. This created a drag in IOC's willingness to invest heavily in supply, unless adequate interventions on revenue securities are provided.

In view of the size of capital investment required to supply gas, agreements are critical and need to be enforceable. The current domestic market is not mature, and agreements need to be improved to enable investor confidence.

The existing AGFA fiscal regime favours existing upstream investors, thereby acting as a barrier to non-oil investors and new entrants into the sector.

According to Emmanuel Egbogah, presidential adviser on petroleum, government's share of economic rent is low as gas development is essentially being funded from existing oil tax revenue.

In his opinion, there is the need for a much better commercial regulatory framework for the downstream gas sector, including the provision of third party access, pipeline ownership and tariff structure, gas transportation code, etc.

On another level, delays in the passage of critical legislature submissions are creating uncertainty regarding major projects, further escalating the long-term supply development. This could in the long run reduce government's net proceed y \$4.4-5.4 billion, if the relevant fiscal laws are not passed.

The current electricity tariff does not support the long run sustainability of gas supply. That is why domestic gas supply in the short/ medium term must take into cognisance both the power sector and industrial demand. Given the above supply, planning in the short term must be rationalised to cater for an ordered proportion of power and industries. A rationalisation of the power sector term generation aspiration is therefore recommended.

This will bring focus to a re-aligned and realised expectation for a generating capacity that is attainable in a specific period- one that recognises gas supply availability and electricity transmission capacity. It will also form the premise for gaining the confidence of the populace as to Federal Government's efforts in the power sector

Five key factors underpin the gas supply challenges for Nigeria's domestic market: gas availability, characterised by the orientation of the international oil companies (OICS) to export, as well as availability and development of short/medium proven gas reserves; commercial issues bordering on domestic gas prices, revenue securitisation and gas agreements; adequacy and flexibility of gas infrastructure; legal and regulatory framework, and funding of gas developments and infrastructure.

Experts have forecast that the global energy needs will continue to grow despite the relative increase in crude oil and natural gas prices. These increases in prices are due to demand and supply balance, as well as other geo-political events.

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