

THE PETROLEUM INDUSTRY BILL - A Special Focus on Downstream Gas

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Q: What's special about gas?

- Its abundance
- Its versatility
- Environmental considerations
- Its strategic value to Nigeria
 - power sector
 - feedstock for industries
 - opportunities for carbon trades
 - potential for significant export earnings

DOWNSTREAM GAS – Current policy issues

- Sector regulatory structure
- Level playing field - encourage new entrants
- Pricing issues
- Infrastructure limitations - access to pipelines
- Securitization
- Fiscal incentives
- Security of Gas supply – Domgas vs. Export Gas
 - gas to power linkage
 - LPG sub – sector revival
- move towards an ultimate private sector – led domestic gas market

DOMGAS – The current initiatives

- **The National Domestic Gas Supply & Pricing Policy & Regulations**
 - Domestic Gas Supply Obligation
 - The Aggregator
 - The Gas Purchase Order
- **Model Commercial Contracts**
 - Template Gas Sale & Aggregation Agreement
 - Template Gas Transmission Agreement
 - Escrow Agreement
- **The Nigerian Gas Masterplan**
- **LPG Sector Revival**

Q: How does the PIB deal with the transition issues?

QQ: Will it take Nigeria into the industrial age?

QQQ: How does it allow for bankability of projects/transactions?

DOWNSTREAM GAS

- **Transportation, distribution and supply of gas to customers including extraction of LPG for commercial purposes and sale and purchase of gas for industrial uses such as the production of CNG, electric power, gas to liquids, LNG, methanol and fertilizer**
- **Exclusion:** pipelines for the transportation of natural gas from producing wells to facilities producing pipeline specification gas

SECTOR REGULATORY STRUCTURE

<p>Nigerian Petroleum Inspectorate (NPI)</p>	<p>Technical/HSE Regulator</p> <ul style="list-style-type: none">• Regulate the design, procurement, construction and operation of facilities and infrastructure in the downstream sector.• Issue Technical Licences• Regulate safety and environmental obligations
<p>Petroleum Products Regulatory Authority (PPRA)</p>	<p>Commercial Regulator</p> <ul style="list-style-type: none">• Regulate pricing, third party access, competition and consumer protection• Issue Commercial Licences• Set common carrier rules for transportation pipelines• Promote gas supply security and gas market development

LICENSING REQUIREMENTS I – activities envisaged

Technical Licence [NPI]	<ul style="list-style-type: none">• design, procurement, construction, operation and maintenance of all downstream facilities and infrastructure (pipelines, refineries, petrol stations, depots, process plants, etc)• utilisation of all chemicals used for petroleum operations
Commercial Licence [PPRA]	<ul style="list-style-type: none">• Ownership and Operation:<ul style="list-style-type: none">■ Gas Pipeline Transportation business■ Gas Transportation Network business■ Gas Distribution Network business• Supply of natural gas• Operation of petroleum processing or transmission plants, terminals or premises

LICENSING REQUIREMENTS II - Types of Commercial Licences

Transportation Pipeline Owner Licence	<ul style="list-style-type: none"> • Right to own, operate and maintain a transportation pipeline within a specified route
Transportation Network Operator Licence	<ul style="list-style-type: none"> • Right to convey gas through network, balance inputs and offtakes, provide 3rd party access and charge for use of network • Only one TNO licence to be granted within geographically defined area
Supply Licence	<ul style="list-style-type: none"> • right to sell and deliver gas to purchasers at any location in Nigeria
Distribution Licence	<ul style="list-style-type: none"> • exclusive right to own and operate a distribution system and to distribute gas within a local distribution zone • right to apply for a Supply Licence for the exclusive supply of gas within the LDZ to customers that are not wholesale customers

GAS PRICING - Transition

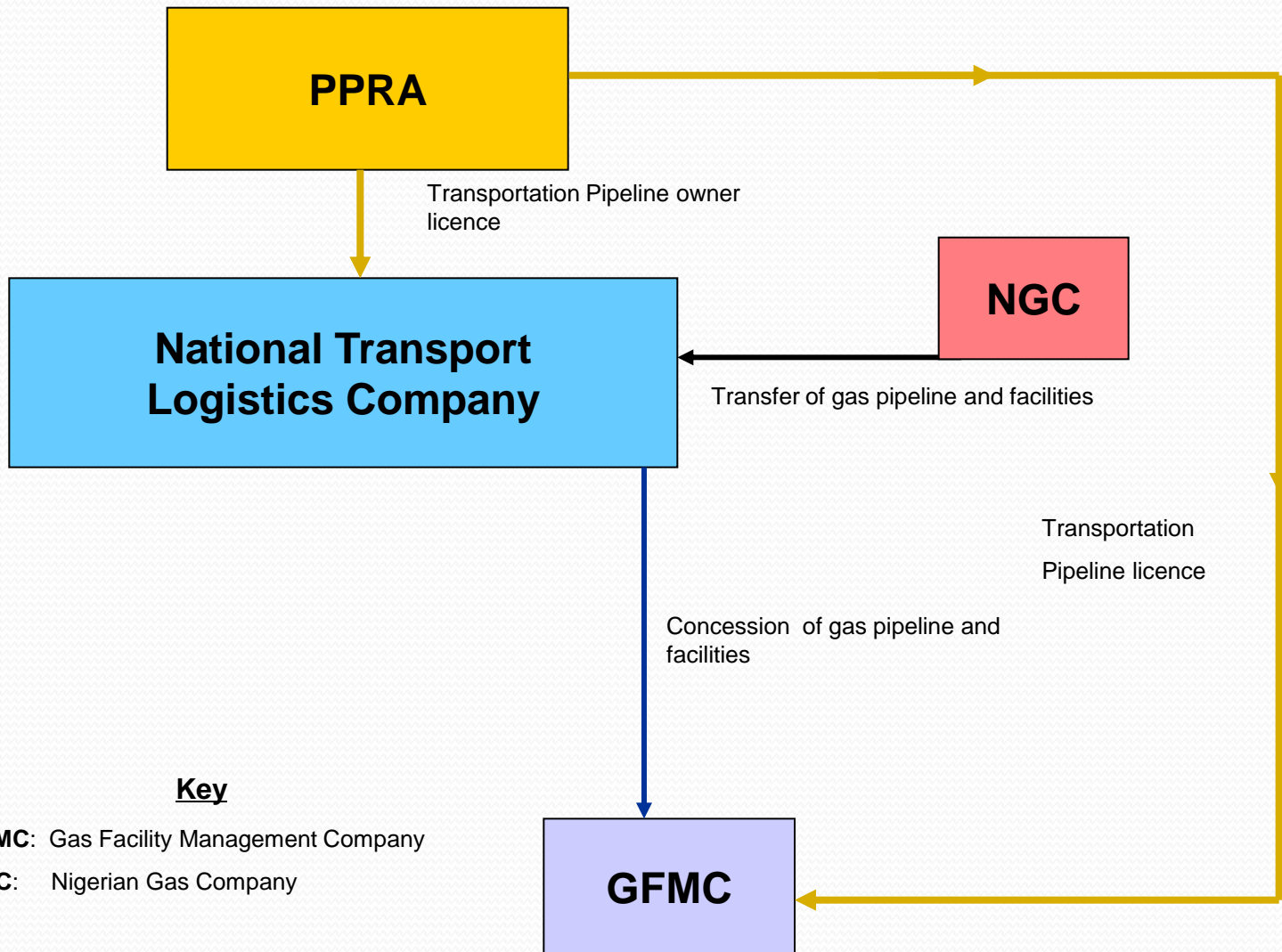
- The existing **National Domestic Gas Supply & Pricing Regulations, 2007** prescribes transitional pricing arrangements for the domestic gas sector
- The PIB envisages a Transition phase before full market development
 - limited or no competition in the market
 - a Transitional Pricing Plan (TPP) to be introduced and implemented
- TPP should set out temporary or transitional pricing arrangements that allow for a gradual transition towards pricing arrangements that comply with the pricing principles outlined in the Act
- Current and PIB pricing principles for transition complementary.

GAS PRICING - Liberalised Market

- **Wholesale Gas**

- Prices to be negotiated directly between the parties on arm's length
- Prices between upstream gas producers and downstream purchasers shall be transparent and reflect cost of transfer in accordance with pricing principles
- PPRA to monitor wholesale gas supply transactions

GAS TRANSMISSION



Key

GFMC: Gas Facility Management Company

NGC: Nigerian Gas Company

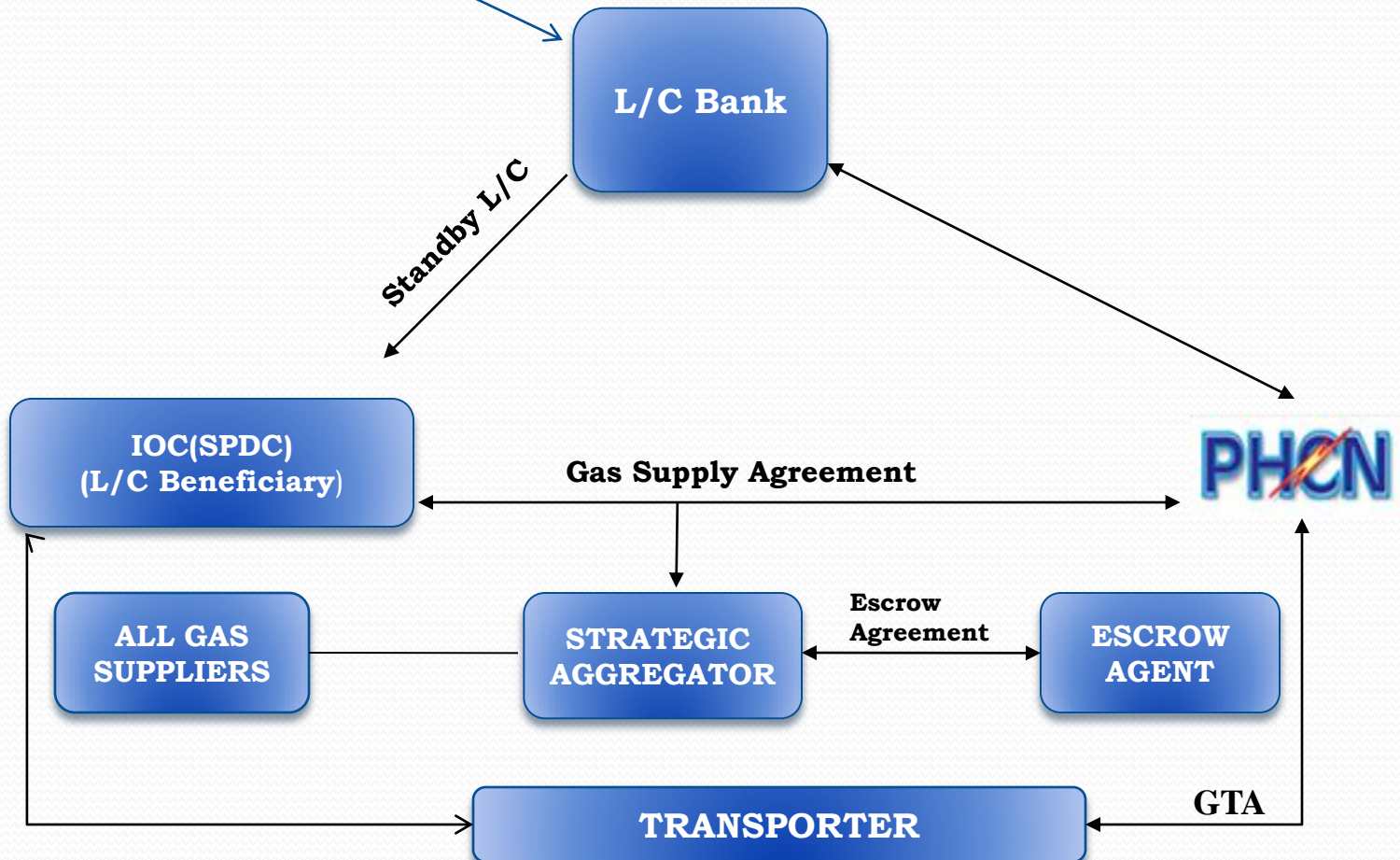
ACCESS TO INFRASTRUCTURE

- Any person shall be permitted access to any pipeline, transportation network and distribution network for the purpose of having gas transported to points of consumption
- Access - be in accordance with Network Code developed by PPRA in consultation with industry stakeholders

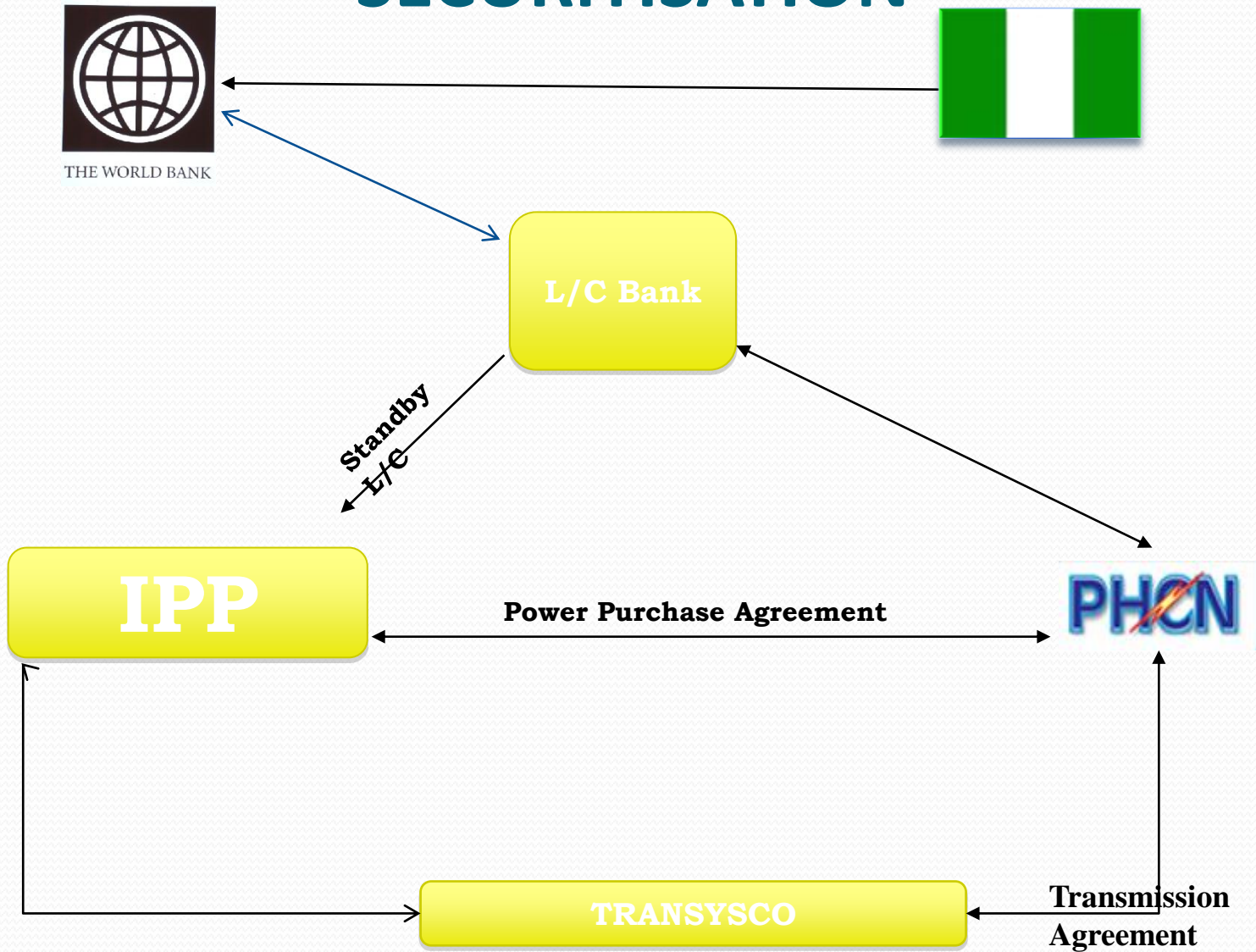
DOMESTIC GAS – POWER SECURITISATION



THE WORLD BANK



DOMESTIC POWER OFFTAKE SECURITISATION



MATTERS ARISING I - The NGC

- Status of existing NGC Contracts not addressed in the Bill
- licences to be issued to the FMC and NTLC might not be adequate for their operations

MATTERS ARISING II – Licensing

- Dual Licensing Requirements
 - Q: Is it necessary to separate the Technical Licences from the Commercial licences?
 - QQ: Is there a possibility that the holder of a technical licence may not be granted a commercial licence?
- QQQ: Who is a Qualified Person for a Technical or Commercial Licence?

MATTERS ARISING III - Bankability Issues

- What is the licence duration?
- Criteria for renewal?
- Can new licence conditions be introduced upon renewal?
- Can Licences be included in a security package?
- Are there clear rules for suspension and revocation of licences?
- Can appeals be made against decisions of the Regulator?
- What is the regulatory regime for pricing?
- What is the regulatory regime for access to third party infrastructure?

MATTERS ARISING IV - Taking Security

- Direct or indirect assignments of technical and commercial licences and all rights and obligations that arise therefrom would require the consent of the NPI and PPRA respectively
- The creation of a security interest over a licence constitutes an assignment and would require the consent of the Regulators
- Assignment of licences to lenders/security trustees would require the consent of two regulators

MATTERS ARISING IV – Suspension & Revocation of Licence

- Triggers:
 - Breach of licence conditions or regulations which specifically state that the breach thereof will result in revocation or suspension
 - Insolvency or bankruptcy
 - Failure to commence activities within prescribed period
- Process
 - Six months notice is required, but no opportunity to cure or make representations [strict liability]

GENERALLY SPEAKING

- Draft bill a hard read. Deals with too many issues, a number of which do not fit too well
- Possible overlap of roles – technical vs commercial regulation
- Need for consistency with concepts (e.g. “open access”/“common carrier”/“3rd party Access”)

FINAL Q: DOES THE PIB STACK UP FOR THE DOWNSTREAM?

- Existing gas policy and regulations grandfathered
- Sector structure clarified, but
- Level playing field - encourage new entrants
- Pricing issues clarified
- Infrastructure limitations - access to pipelines
- Securitization – ok for gas sale to government
- Security of Gas supply – Domgas vs. Export Gas
 - gas to power linkage
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Q & A

