A COMMUNIQUÉ ISSUED AT THE END OF THE NIGERIAN GAS ASSOCIATION (NGA) BUSINESS FORUM, HELD AT EKO HOTELS AND SUITES LAGOS ON THURSDAY 15TH JUNE 2017.

On Thursday 15th June 2017, the Nigerian Gas Association (NGA), a Chartered member of the International Gas Union (IGU) organized its Business Forum. The theme of the forum was **'Embracing New Realities: Resetting our Gas to Power Industry'**.

Those present during the business forum include; Professor Bart Nnaji the former Nigeria Minister for Power as the Keynote speaker; Mr. 'Demola Adeyemi-Bero the Chairman, Independent Petroleum Producers Group and Mr. Bolaji Osunsanya the Immediate Past President of the Nigerian Gas Association. Also present were; Dr. David Ige the former Group Executive Director (Gas and Power) at Nigerian National Petroleum Corporation; Mrs. Maryam Shehu the Deputy General Manager (Gas Commercial) Total E & P; Mr. Sanjay Teotia the Managing Director of NIPCO Plc. and Mr. George Etomi the Principal Partner of George Etomi and Partners and a Director of Eko Disco Plc., Mr. Walt Perez the Managing Director of West Africa Gas Pipeline Company Limited and other key management staff of national, international and indigenous producing and service companies. Industry professionals, the academia and the media were also in attendance.

The event, which attracted more than 400 delegates, provided an opportunity for high-level government representatives and industry leaders to share knowledge, raise awareness and discuss strategic options that natural gas offers for sustainable access to energy, social and economic development. Speakers included experts from the energy industry; both local and global companies; government officials and international organizations .

Many of the participants and speakers had long experience from other nations and regions that have gone through similar gas industry developments. The presentations and discussions pointed to the tremendous opportunities, but also challenges that exist.
The following issues that plague our Industry in Nigeria are similar reasons that limit investments in the Power sector.

1. **Gas Constraints.** The statistics around Nigerian Gas Reserves is impressive. The resource must however be explored and produced to convert it to usable gas for power generation and industrial use. This requires considerable resources and investment. The constant damage of facilities due to acts of vandalism has worsened the situation.
2. **Market (not cost) Reflective tariff.** The review of MYTO must be aggressive. It must be reflective (to encourage efficiency) and sensitive to critical adjustments in Currency, Fuel and Inflation. Adjustments have been so far slow, politically motivated and inconsequential.
3. **Infrastructure to wheel Power**. The transmission and distribution constraints continue to be weak links that moderate success. Nigeria needs about seven times the capital cost of the plant to invest in attendant wheeling infrastructure. For the existing wires, there remains a need to upgrade and overcome all "open access issues"
4. **Creditworthiness of Discos**. Poor collection and quality of debtors reduce the overall bankability of the sector. The baseline premise of liquidity was far from reality.
5. **Overleveraged Power Assets**. The divestment process allowed successor companies freedom on their takeoff capital structure. Inadvertently, majority financed the acquisition with mostly debt leaving little further room and patience for new borrowing.
6. **Value Chain Misalignment**. A thorough commercial knowledge and appreciation is required to connect all dots in the integrated "Gas to Power" chain. The current situation is that the Gas-to-power value chain is broken and needs radical measures to fix it.
7. **Will to enforce contracts**. There is an urgent need to enforce the sanctity of contracts. Even when contracts exist, they are quickly side tracked at the flimsiest opportunity. Government must set a good example by starting to honour its contractual obligations.

There are questions around the implementation of the **privatization process** that brought in the new players as well as the state of **regulation** within the industry. It is an **Uncoordinated and Un-bankable** sector gradually approaching a **comatose** state.

80% of Power generation in Nigeria today is from gas fired power plants. If only for self-preservation, the Gas sector and indeed Nigeria cannot but focus on these issues and find workable solutions going forward. Already, through the Payment Assurance Intervention, Government is already taking some bold steps. There are yet a lot to do in both tactics and long term actions.

These are:

1. **Bold and immediate review of electricity tariff**. Prices must be reflective of the commodity and within the context of the available alternatives. Prices must move ahead of the anticipated efficiencies until we attain power sufficiency. We must use the MYTO framework in a manner that we properly and transparently adjust for movements in inflation, exchange rates and changes in pass through elements.
2. **Realistic Regulator.** We need an independent and apolitical regulator capable of balancing the needs of all stakeholders and assuring the overall sustainability of the sector. NERC must transform to a competent and well-resourced Commission using best standards and practices. The regulator must encourage proactive customer engagement that, may amongst other things, culminate in differentiated pricing.
3. **Strict insistence on Performance Indicators**. We must hold the successor companies accountable for their pre-bid offerings and sanction any non-performance. In the same vein, BPE must deliver all the promised pre-transaction terms.
4. **Embedded Power to the Rescue**. With the declaration by the Minister of the Captive Customer, we have made some progress. Consumers of a certain profile can negotiate directly with Generation companies for direct supplies. There is a unique opportunity to mobilize existing/idle and new generation capacity into Distribution zones that can dedicate such to customers willing to take a renegotiated tariff inclusive of local wheeling charges. This may mean a redefinition of "Captive Power" as you have it in the ESPRA.
5. **Revisit terms of Sale**. While politically uncommon and begs the notion of sanctity of contracts, it may be unavoidable to correct the poor foundation on which most of the successor companies were built. The objective must be to supplement the deficiencies rather than disenfranchise existing subscribers
6. **Legislation for customer behavior and conduct**. Electricity theft must be punishable by law. Sanctity of contract must be enforced at all social levels.
7. **Security over strategic assets.** We must classify our gas and power "strategic" and leave nothing to chance. A combination of community policing, physical surveillance and use of non-obtrusive technology must ensure almost 100% availability.
8. **Sector Debt.** The CBN intervention alleviated the overhang. It however did not cover all periods. The move to also get MDAs to reconcile and pay old debts can improve the state of things. The more fundamental recommendation will be for the regulator to prescribe a minimum capital threshold for such Utility businesses. It might require new capital programs and may include newer investors to complement existing and or long term refinancing /restructuring of existing inappropriate debts.
9. **Flexibility and new sources of gas.** Federal Government should conduct gas specific bid rounds to allow access to gas locked up in existing, marginal or pioneer acreages by existing and new players.
10. **Virtual Pipelines as part of the mix.** There must be a conscious drive to diversify the energy mix. There exist new technologies that can fast track supplies to stranded markets and plants while improving the overall flexibility and robustness of the existing limited infrastructure. A

deliberate strategy to encourage the emergence of these options (CNG, mLNG, midLNG, LPG etc.) must be pursued

11. **Transmission Rethink.** With the new value chain approach, it is increasingly clearer that Transmission is the new weakest link. Commercialization and creative concessions or PPP models must be utilized to close the huge infrastructure gaps to enable easy wheeling of the growth anticipated in the Power sector. There is a need to rethink the need for a centralized vs. regional and /or distributed grids
12. **Project Execution and Timing (follow through, competence and discipline)**

Conclusion

In closing, the Nigerian Gas Association expressed profound gratitude to Chevron Nigeria Limited; Total E & P Limited; Nigeria LNG Limited; Oilserv Limited; Frontier Oil Limited; Nigeria Gas Pipeline and Transport Company Ltd and Nigeria Gas Marketing Company Limited including LEE Engineering g Co. Limited for their tremendous sponsorship support towards successful hosting of the Business Forum.

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President NGA