A COMMUNIQUÉ ISSUED AT THE END OF THE NIGERIAN GAS ASSOCIATION (NGA) FINANCIAL FORUM ON INVESTING IN NIGERIA'S GAS FUTURE, HELD AT EKO HOTEL AND SUITES LAGOS, NIGERIA ON TUESDAY OCTOBER 17, 2017.

1.0 Preamble

The inaugural edition of the Nigerian Gas Association Financial Forum was held at the Eko Hotels and Suites, Victoria Island, Lagos, on the 17th October 2017. The forum provided a platform for stakeholders in the gas and financial services sector to collectively formulate strategic solutions for the advancement of the Nigeria gas industry and individual company's responses to the funding and investment gap, including potentials for the sector.

The event had in attendance; the Group Managing Director of Nigerian National Petroleum Corporation(NNPC) DR. Maikanti K. Baru represented by Mr. Saidu Mohammed, the COO/GED, Gas and Power-NNPC; The Group Managing Director of Access Bank Plc, Mr. Herbert Wigweh represented by the Deputy Managing Director, Mr. Roosevelt Ogbonna; Mr. Umana Okon Umana, the Managing Director of the Oil and Gas Free Trade Zones Authority Nigeria; Mr. Chikezie Nwosu, Deputy Managing Director (Technical), Addax Petroleum Development Company; Ms. Adetola Adegbayi, Exective Firector (General Business), Leadway Assurance Limited; Mr. Chiagozie Hilary-Nwokonko, Partner, Streamsowers & Kohn; and Mr. 'Demola Adeyemi-Bero, Chairman, Independent Petroleum Producers Group/Managing Director, First E & P Development Company and other key management staff of National, International and Indigenous producing and service companies. Industry professionals, bankers, the academia and the media were also in attendance with over 100 participants.

The event focused on the theme **'Investing in the Nigeria's Gas Sector'**.

At the end of the deliberations, the following conclusions were reached.

1. Energy/Gas Policy

- Forum identified a lack of consistent energy policy by the Federal Government of Nigeria as a challenge to gas development in Nigeria. To this end, the forum called on government to fashion out an energy policy that will be both effective at addressing the challenges of the industry and is also enduring.

- Forum noted that there should be a comprehensive Energy Policy that supports investments not only in oil projects, but specifically in growing gas utilization and renewable to achieve the right future energy mix for Nigeria.

- Forum pointed out the need for a Nigerian Energy 'Think Tank', with representatives from Government Agencies (DPR, NNPC, NCDMB, Ministry of Power etc.), Industry Energy Professionals (NGA, NAPE, SPE, REAN, NSE, SESN, SEPAN, PETAN etc.) and Academia to help formulate the nation's short, medium and long-term energy policy in a rapidly evolving and transformational era.

- In order to grow the gas sector, forum noted that there should be a targeted indigenous research, development and deployment program for the use of local materials for gas and renewable energy projects.

- Forum identified the urgent need for government intervention in behalf of independents that acquired onshore gas assets previously held by IOCs through the divestment backed by Nigerian banks. Forum observed that these independents are under pressure from the banks and that the situation is forcing them to shift focus to oil in the short term. To enable gas development, this situation needs government intervention.

- Policy and regulation is not keeping pace with gas development. To push for improved regulation, forum noted that the NGA needs to work with DPR for regulations that will specifically govern the gas sector. These regulations must then be made into laws.

- Forum pointed out that the National Gas Policy needs to also focus on technological adaptation to align with changes taking place globally. Hence gas policy should not only be about fiscal.

2. Gas and Nigeria Energy Mix

- Forum realized that while unpredictability and volatility of global oil prices is not new, investment in the oil and gas industry has been largely reactionary to price volatility. Forum recommends that the country adopts an energy mix investment model that does not react to changes in oil prices

- Renewable source of energy is beginning to play a bigger role in the global energy mix making gas business a growth sector worldwide. Meanwhile, the Nigerian energy mix is oil dominated and investment is largely focused on oil while gas plays a very minute role. Forum noted that gas has the opportunity and potential to grow, compete and even overtake investment in oil. To that end, policy makers must ensure that the right environment is created for gas investment to grow and surpass investment in oil. The ongoing Petroleum Sector reform; approved Gas Policy and draft Petroleum Fiscal Policy are steps in the right direction but a lot more work needs to be done to make Nigeria an attractive gas focused investment destination. By so doing we will be moving ourselves to a potion where we no longer affected by the volatility of oil prices

3. Gas to Power Infrastructure

- The energy mix that the country needs now requires that we grow our gas infrastructure. Major international oil companies and indigenous companies must focus on growing gas investments. This must be driven by appropriate government policy. Forum pointed out that a situation where the government keeps changing policies for existing gas investments will work against gas development in Nigeria.

- There is the need to build Nigeria's gas to power infrastructure beyond pipelines. To this end, forum noted that the country needs to leverage on the advancement in technology, using the Virtual Pipeline Technology to bring natural gas to markets and industrial clusters in affordable, sustainable, safe way to enable and in some instances kick start the industrialisation we desperately need to diversify our economy.

- Forum agreed that, as identified in the approved National Gas Policy, one of the ways of growing the gas market is by enabling alternative markets and uses for gas. Some of these alternatives include compressed natural gas (CNG), natural gas vehicles (NGV), Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG). Given that these alternative markets can be served using the Virtual Pipeline technology, this must receive government backing for it to succeed.

- The Gas to Power infrastructure development (GTP) initiative must be private sector focused and led, partnering with governments where necessary to bring power to underserved areas.

- The GTP projects should create distributed electricity supply centres to support industrial clusters and remove dependence on the national grid and/or reliance on the infrequent and expensive diesel fired electricity generation. These distributed power-based satellite systems should be modular in nature, be designed so that additional capacity can be added as and when needed and fast to develop. This will control redundancies in capital deployment and can also augment rather than displace traditional power generation development.

4. Lenders and Investors

- Forum noted that one of the greatest challenges we have in the sector is that about eighty percent of all gas production targets only the power sector. That situation is worrisome for any lender or investor as the gas -to-power sector value is currently illiquid and uneconomic. Investors and lenders consider the value chain and will focus on how they will be repaid. Forum recommends Government urgently addresses the electricity power tariff price, which is currently too low to sustain the value chain and the outstanding debt owed to the sector.

- Forum pointed out that the needs of the project developer are mismatched with what the local banking sector can provide. In view of this situation, the best type of equity investors for gas projects are those strategic investors that have track records in other parts of the world and are willing to risk capital long term.

- Forum agreed that there is the potential for incremental upstream production. While most local banks cannot risk capital beyond three to five years for oil and gas projects, incremental upstream production will allow the developer to introduce refinancing to long term projects that can be taken on by more long term investors such as DFIs.

- What happens at the downstream end of the value chain can dilute the agreements made at the beginning of the project. Lenders might therefore prefer a diversification that supplies to different ends of the market such as domestic market, export, industries such as fertilizers etc. This way the investor will diversify risk and hedge their exposure.

- Forum agreed that there is capital available but that such capital is highly selective, choosing the most attractive projects and projects promoters with proven track records. There are foreign providers of debt that are increasingly willing to finance debts in local currencies and take on the hedging risks.

5. Gas Value Chain – an economic enabler or a source of revenue?

- Forum identified the need to make hard choices and decision and agreed that the impact of what happens along the value chain is more important than immediate gas royalty/tax accruable to government. Forum recommends there is a need for a paradigm shift. Government should treat gas as enabler of the Nigerian economy and not a source of immediate tax/royalty revenue. By giving appropriate incentives to grow the gas sector such as a ten to fifteen-year tax holiday, power generation and consumption will increase as will the overall economy. The government would then benefit from increased income from transactional, corporate and other taxes from a vastly enlarged economy. This requires sacrifice in the short term to secure a better future.

- Forum recognized the fact that the gas value chain is illiquid and is weighed down by a huge debt burden, noting that financiers usually avoid huge debt burdens. Gas value chain also has poor bankability. The projects must be viable to international financiers as local banks cannot handle the projects. There must be a structured solution to the N1 trillion illiquidity in the power sector and the settlement of the over N250 billion debt to gas suppliers.

- The entire value chain needs to get involved early in the project development to make both investment and marketing smooth. The gas sector must deliver returns to each part of the value chain as against the current situation in which some part of the value chain cannot even recover their cost. There is the need to determine what a fair return is to each segment of the value chain. Another related need is to determine what a fair market reflective (to promote efficiency) as opposed to cost reflective (which encourages in-efficiency) tariff is. Forum noted that for the gas sector to work one must tick all the boxes across the entire value chain.

- Forum agreed that the gas sector stakeholders must summon the will to do what is necessary to make things right, making sure that the sector is fair to everyone in the chain. While the return on investment will not be the same but everyone must have a commensurate return.

- Trucking challenges is a reality. Forum called on the government for better transportation infrastructure: roads, rails and waterways.

6. LPG Development

- Forum noted that in the last 10 years, the LPG market gas has grown from 150,000 metric tons to 600,000 metric tons mostly through the effort of the private sector. However, one of the bottlenecks in the LPG market is the continued subsidy on dirty fuels such as kerosene which competes with LPG.

- Nigeria is at least a 5 million metric ton demand market. Strategies to unlock the market are confronted with hard questions such as affordability, acceptability and accessibility.

    - Affordability: the commodity is priced in US.

    - Acceptability: Nigerians need to accept LPG as a domestic fuel.

    - Accessibility: we need to build infrastructure to allow access to LPG. For example, we need to build terminals and delivery/distribution infrastructure to enable us receive cargoes and distribute the product.

- Forum recognized the need to think of how to use LPG as a source of power. The issue of cost effective tariff can be dealt with using LPG as feed gas in power plants.

- Government needs to let the private sector galvanize and drive the LPG sector. While policies adopted by the federal government will drive the adoption of LPG, operators need to sell to customers according to what customers can afford.

- Forum noted that the NNPC can play a big role in reducing the price of LPG by demanding that a percentage of LPG from NLNG is priced in naira.

- The current situation where kerosene and petrol are given preferred attention at the jetty hinders and delays the discharge of LPG cargo. To this end, the forum encourages the government to dedicate other jetties as LPG-only jetties.

- The Free Zones are to attract investment to specific areas and are given incentives. For instance the fertilizer project in Brass can leverage on the incentives that are available to improve the profitability of the project

- Forum was informed that in order to develop the LPG market in the short term (0-6 months), the government will begin National Awareness Programs, sensitization and enumeration, boosting investor confidence through fiscal stimuli, strengthen regulatory framework and building the CDM Business Model to attract loans and investors

- Forum was also informed that in the medium term the government will work to expand market sectors for LPG while continuing to renew awareness, targeting market and investors to drive LPG adoption

7. Managing Project/Investment Risks

- Most investors in highly capital intensive projects want their investments and profitability assured against any loss. Lump sum investors would like to transfer the risk to others such as contractor. From a risk management point of view, insurers will not ensure a project that represents a pure economic loss.

- Forum identified market price fluctuation as a risk for one who has invested a lump sum, affecting his profitability. Another is the performance loss when projects take longer that was initially projected. In the case of an accident or damage to facilities, the losses can cause a delay that will in turn erode the profitability of the project. Insurance helps to ensure that the profitability is protected in case of any of the risks.

- A foreign investor often considers whether the local partner has the capacity to deliver the project. The Nigerian entity that does not have the capacity will resort to buying re-insurance. Therefore, it is possible to transfer the risk of lump sum fixed price when it relates to time or accidental losses.

- Forum concluded that insurance is about risk syndication and that no insurer has what it takes to do it all in a long term gas development project.

The 1st Vice President of the NGA expressed her gratitude to all who responded and participated with enthusiasm at the event - sponsors, resource persons, industry captains, professionals, academia bankers, and the media. The NGA look forward to having the same level of support and partnership in the coming years as we work to increase and improve the delivery of the NGA mission in Nigeria

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President NGA