Energy Sector Review

October 2024, Edition

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October witnessed significant developments across Nigeria's energy sector, with notable policy shifts, large-scale project announcements, and strategic deals aimed at reshaping the industry. This edition provides a succinct review of key highlights, where we offer insights into the regulatory updates, market dynamics, and innovative efforts steering the sector's progress.

Federal Government Introduces Tax Reliefs for Deep Offshore Oil and Gas Projects

On 2nd October 2024, the Nigerian government issued the Value Added Tax (Modification) Order 2024, exempting several energy products and related equipment from VAT to promote cleaner energy and reduce living costs. The exemption covers energy products such as,

- Equipment and infrastructure for Compressed Natural Gas (CNG) and Liquified Petroleum Gas (LPG) expansion, including conversion kits.
- Domestic LNG processing facilities and equipment.
- Electric vehicles and parts of their assembly.
- Biogas and biofuel equipment for clean cooking and transportation.
- The Order also provides a new definition of "petroleum products" which expands the previously exempt items to now include:
    - i. Imported Liquified Petroleum Gas
    - ii. Feed Gas for all processed gas
    - iii. Automotive Gas
    - iv. Compressed Natural Gas

These exemptions are part of a broader strategy to lower the cost of living and facilitate Nigeria's transition to cleaner energy sources, allowing the energy sector to leverage these incentives to benefit clients and promote sustainable practices.

Implications and Outlook

- The VAT exemption on energy products signifies the Federal Government's commitment to promoting economic growth through tax policies that are both fiscally prudent and environmentally conscious.
- By eliminating VAT on essential energy products, the government aims to reduce costs for consumers, offering potential relief in the face of rising living expenses.

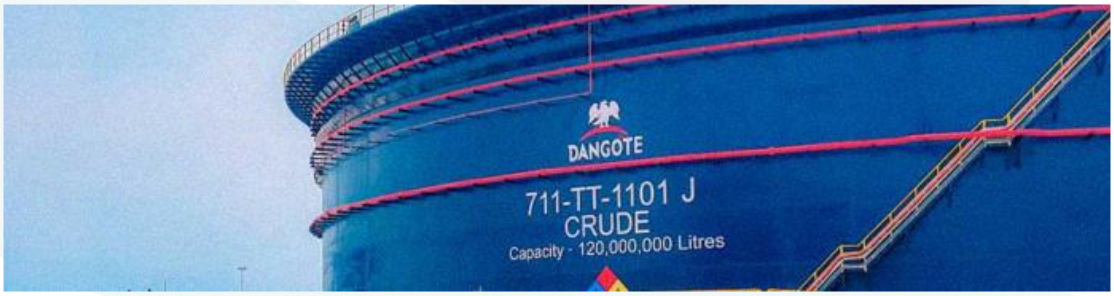
This VAT relief measure also supports the government's energy transition initiatives. By providing incentives on energy products, consumers are encouraged to adopt cleaner energy options, thereby advancing national sustainability goals.

Schneider Electric To Acquire Motivair for $850m

Schneider Electric has announced an ambitious plan to invest $850 million in acquiring a 75% controlling interest in Motivair, a company renowned for its innovative data centre cooling solutions, particularly in liquid cooling technologies tailored for high-performance computing. The remaining 25% of Motivair is set to be acquired by 2028. This acquisition is part of Schneider's strategy to enhance its capabilities in the rapidly evolving data centre market, where traditional air-cooling methods are increasingly inadequate for managing the heat generated by advanced computing technologies. Motivair offers a suite of high-performance cooling products, such as coolant distribution units, rear door heat exchangers, and thermal management chillers. This strategic move aims to solidify Schneider's position as a leader in the global data centre industry. The transaction is subject to regulatory approvals and customary closing conditions, with completion expected in the coming quarters.

Implications and Outlook

- By acquiring Motivair, Schneider is poised to strengthen its competitive edge in the data centre cooling market. The unique liquid cooling technologies offered by Motivair will complement Schneider's existing product line and provide a comprehensive solution that addresses the increasing demand for efficient cooling from grid to chip. This will position Schneider favourably in a market that is seeing rapid technological advancements and growing energy efficiency needs.
- A key aspect of the acquisition will involve significant technology transfer, which would necessitate compliance with various legal frameworks and industry standards. Schneider must ensure that the transfer of technology adheres to both domestic and international regulations, including export controls and technology licensing agreements. Proper management of this transfer is essential to maintain operational integrity and innovation continuity.
- Another key aspect of the acquisition will be managing the intellectual property rights associated with Motivair's technology. Schneider will need to navigate the complexities of patent transfers and technology integration to ensure that both companies' innovations are protected and leveraged effectively.



NNPCL Quits Off-taker Role With Dangote Refinery

On the 7th October 2024, the Nigerian National Petroleum Company Limited ("NNPCL") terminated its exclusive purchase agreement with Dangote Refinery and stepped away from its role as an off-taker, signalling a shift toward a more open market for refined petroleum products. NNPCL had revealed that it had subsidised fuel prices by ₦133 per litre as the sole off-taker from Dangote, however, with the new development, it will no longer continue to subsidise the price of fuel. Consequently, fuel prices have surged, with some regions seeing prices exceed ₦1,030 per litre, influenced by global market rates and the naira's devaluation.

Implications and Outlook

- The termination of the NNPCL's exclusive agreement with Dangote Refinery marks a key moment, which would potentially foster a more competitive and transparent market for refined petroleum products in Nigeria.
- The discontinuation of NNPCL subsidizing the difference between Dangote refinery's selling price and the market price to marketers will effectively eliminate fuel subsidies. As a result, marketers will now be required to purchase fuel directly from Dangote's refinery and sell it at cost, plus their profit margin. This transition may potentially lead to even higher fuel prices for consumers.

Federal Government Approves Direct Petrol Lifting From Dangote Refinery

On 10th October 2024, the Federal Government through the Minister of Finance and Chairman of the Naira-Crude Sale Implementation Committee, Wale Edun, officially granted its permission to petroleum marketers to procure Premium Motor Spirit (PMS) directly from the Dangote Refinery, bypassing the NNPCL This move is part of a broader effort to enhance efficiency in Nigeria's petroleum sector.

This permission by the Federal Government aims to streamline the petroleum market by fostering competition and removing intermediaries, with marketers now able to negotiate directly with refineries.

Implications and Outlook

- The direct purchase system is expected to enhance market efficiency, which will ultimately reduce costs for petroleum marketers and potentially lowering the price of PMS for consumers.
- This move encourages competition in the oil and gas sector, fostering a more dynamic and responsive petroleum market.
- This new model supports a fully deregulated market structure in Nigeria, which marks a significant step towards local market liberalisation.

Federal Government Signs ₦122 Billion Equity Participation Agreement with Six Gas Companies

On 12th October 2024, the Federal Government signed a ₦122 billion project equity participation agreement with six gas infrastructure companies namely: Asiko Energy Holdings Limited; FEMADEC Energy Limited; Ibile Oil and Gas Corporation; Nsik Oil and Gas Limited; Rolling Energy Limited; and Topline Limited to enhance the midstream gas value chain in the country.

This public-private partnership, facilitated through the Midstream and Downstream Gas Infrastructure Fund (MDGIF) established under the Petroleum Industry Act (PIA), aims to boost domestic natural gas consumption and aligns with Nigeria's broader gas revolution strategy focused on energy security and development. The agreements include Joint Operating Agreements, Equity Contribution Agreements, and Joint Venture Account Agreements, which signals a collaborative effort to advance the nation's gas infrastructure.

Implications and Outlook

- The ₦122 billion investment marks a significant step toward improving Nigeria's midstream gas infrastructure, potentially increasing the efficiency and reliability of gas supply across the country.
- The focus on boosting domestic natural gas consumption aligns with Nigeria's energy security goals, which may reduce reliance on imported fuels and enhance local energy resilience.
- Also, this PPP aligns with the nation's Decade of Gas Initiative which aims to fully utilise Nigeria's gas resources to fuel economic development.

Lagos FPSO Facility to Add 40,000 Barrels Per Day to Nigeria's Crude Oil Production

The Nigerian government is set to contribute an additional 40,000 barrels per day (BPD) to Nigeria's crude oil production through the Floating Production Storage and Offloading (FPSO) facility in Lagos.

The Lagos FPSO, which is a joint venture involving NNPCL and Century Nigeria Limited developed in partnership with WAEP Nigeria Limited and NNPC Energy Services Limited (ENSERV), is set to be completed by Q1 of 2025.

The new FPSO facility marks a significant milestone for Nigeria's oil and gas industry and reinforces the government's drive to attract substantial foreign investment and improve domestic production. The project is part of a larger plan expected to boost the oil sector's investment, with an estimated $50 billion in new developments anticipated over the next few years. This recent announcement aligns with the government's broader strategy to raise national output by fostering collaborations within Nigeria's energy sector.

Implications and Outlook

- The FPSO facility's additional 40,000 BPD will enhance Nigeria's oil production and boost government revenue.
- This joint venture could strengthen local expertise, reducing dependency on foreign technical support.
- The project showcases Nigeria's commitment to expanding its energy sector and tapping into local expertise.

Nigeria Signs Deal to Supply Gas to Proposed $3.5 Billion Petrochemical Plant

On 14th October 2024, Nigeria signed a significant deal to supply gas to the proposed $3.5 billion Brass fertilizer and petrochemical plant, strategically leveraging its vast gas reserves for economic growth. Under this agreement, joint venture partners including NNPCL, Shell, TotalEnergies, and Eni will provide approximately 270 million standard cubic feet of gas per day to the plant in Brass, Bayelsa State. This will mark the largest single Gas Supply and Purchase Agreement (GSPA) with a domestic off-taker in Nigeria.

As Africa's largest energy producer with over 200 trillion cubic feet (tcf) of gas reserves, Nigeria aims to enhance gas utilisation for industrial purposes, power generation, and exports, to eliminate routine gas flaring by 2030. The Brass project is expected to generate over $1.5 billion from the export of petrochemicals and gas-based products while reducing fertilizer imports by 30%, potentially saving the country around $200 million in foreign exchange annually.

Implications and Outlook

- The gas supply agreement for the Brass fertilizer and petrochemical plant positions Nigeria to effectively leverage its vast gas reserves, which will boost economic growth and diversifying revenue streams.
- The project is expected to create local jobs and stimulate economic development in Bayelsa State while enhancing Nigeria's presence in the global petrochemical market.
- The deal aligns with the government's Decade of Gas initiative, which aims to use the country's 200tcf natural gas reserves to transform its economy into a gas-powered one.

NMDPRA Unveils New 2024 Midstream and Downstream Operations Regulations to Streamline Petroleum Industry Licensing

The Federal Government, through the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), introduced the 2024 Midstream and Downstream Petroleum Operations Regulations. This new framework consolidates multiple petroleum industry regulations into a single document, simplifying the process of obtaining petrol import licenses and streamlining operational guidelines.

The 2024 regulations replace previously administered rules under the now-defunct Department of Petroleum Resources, aiming to reduce the complexities and redundancies within Nigeria's petroleum industry. The consolidated framework covers the licensing, transportation, loading, and shipment of natural gas and petroleum products. It includes clear guidelines on compliance, with detailed provisions for fees, penalties, and fines for regulatory breaches, improving accessibility and adherence for all operators in the sector.

Also, the new framework provides a harmonised reference for the midstream and downstream value chains, which captures key aspects of the Petroleum Industry Act (PIA) and promotes a cohesive operational environment for industry participants. The Regulation is set to be officially published in the Federal Government Gazette following final reviews.

Implications and Outlook

- This Framework represents a major advancement for the downstream oil and gas sector in Nigeria. It aims to promote more efficient practices, which would enhance operational effectiveness and foster a more competitive environment.
- The consolidation of existing legislation simplifies access for stakeholders by providing a comprehensive document that outlines all relevant regulations within the sector. This streamlining enhances understanding and compliance, facilitating smoother operations and better governance.

Federal Government Approves Exxonmobil's $1.28 Billion Asset Sale to Seplat After A Two-year Delay

The Federal Government has approved the sale of ExxonMobil's onshore assets to Seplat Energy, marking the completion of a $1.28 billion deal that was first agreed upon over two years ago. The sale involves the acquisition of ExxonMobil Nigeria's offshore shallow water operations. Under the deal, Seplat will own 40% of four oil mining leases and associated infrastructure, including the Qua Iboe export terminal, and 51% of Bonny River natural gas liquids recovery plant previously owned by Mobil Producing Nigeria Unlimited, Exxon's local subsidiary.

Originally announced in February 2022, the transaction faced delays due to regulatory hurdles. However, President Bola Tinubu assured on 1st October 2024, that ministerial approval would be granted shortly following clearance from the regulator.

Implications and Outlook

- The approval of the Seplat-ExxonMobil deal signals the Nigerian government's commitment to facilitating foreign investment in the oil sector while adhering to regulatory processes.
- ExxonMobil's decision to divest reflects a broader trend of international oil companies shifting focus from onshore assets.
- The trend of international oil companies divesting from onshore assets is likely to continue, as firms seek to prioritise offshore operations and reduce exposure to regulatory risks.
- The successful completion of this sale could encourage other potential buyers to engage in similar transactions, bolstering local consortiums' roles in Nigeria's oil industry.

Federal Government Rejects Shell's $1.3 Billion Oil Asset Sale to Renaissance Group

On 21st October 2024, the Federal Government, through the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), rejected Shell's proposed $1.3 billion sale of its onshore oilfields to the Renaissance Group.

In January, Shell, via its subsidiary, Shell Petroleum Development Company (SPDC)announced its agreement to divest its onshore and shallow water assets to Renaissance Group, a consortium made up of 4 indigenous companies - Aradel, ND Western, First Exploration and Production (E&P) and WalterSmith as well as the international energy group, Petrolin. However, the Federal Government has recently rejected the Shell-Renaissance deal on the grounds that the consortium does not have the financial, experiential, and technical capacities to take over and manage the assets.

Implications and Outlook

- The rejection of the sale delays Shell's plans to exit onshore operations, potentially slowing its efforts to streamline investments and shift focus to deepwater and gas projects in Nigeria.
- Shell may need to reassess its sale strategy or find alternative buyers with stronger qualifications, which could prolong the asset divestment process.

REA Signs Power Deals with 14 Entities

On 25th October 2024, the Rural Electrification Agency (REA) signed a memorandum of understanding with five federation government agencies and nine renewable energy service companies for the generation of about 1,000 megawatts of electricity through solar systems. The Federal Government agencies include the Nigeria Immigration Service, the Nigeria Police Trust Fund, the National Agricultural Development Fund, and the National Power Training Institute of Nigeria.

The aim of this initiative is for the Federal Government to achieve a 1,000MW portfolio generation capacity across the country over a period of three years. The project is to utilise the $750 World Bank - Distributed Access Rural Renewable Energy Scale-up Loan as seed capital and intends to attract $1.1billion investment from the private sector, towards this initiative. This project aims to electrify 17.5 million Nigerians.

Implications and Outlook

- This project aligns with the Federal Government's transition goal. It also aims to provide Nigerians with access to cleaner and affordable sources of power.
- This project thrives on PPPs and seeks to attract investors more into the Nigerian power market, especially as it concerns renewables.

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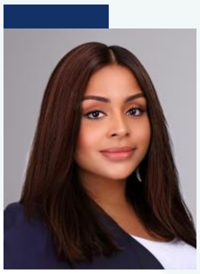
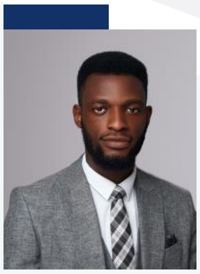
THE AUTHORS





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