

Gas to Power Issues

The general complaint nation wide is that since ownership to the PHCN power assets changed hands from Federal Government to private hands, the power problem has worsened. The Ministry of Power and NERC have clarified that decrease in gas supply to gas fired power plants is the cause of the poor electricity supply. The NERC Chairman in delivering the Conference Keynote, at the NBA, Yenagoa Energy and Environmental Law Committee (EELC) Conference recently held, emphasized that with 80% of power fuel sources being gas, the expectations on power, directly translates to expectations on gas. He emphasized that the Petroleum Industry Bill needs to be passed for the Gas Master Plan to become law, pricing for gas for power generation needs to be agreed under the Gas Pricing Policy, the difference between the prices of Domestic Gas Supply Obligations (DGSO) gas - which has a fixed price- and Non Domestic Gas Supply Obligation (NDGSO) gas -that has no fixed price- needs to be fixed. Will the DGSO gas be sufficient for the power sector? Where insufficient and power generators are forced to contract for NDGSO gas, this gas supply transaction will be unregulated since the Gas Aggregator (whose role under the Gas Master Plan is to allocate gas supply from gas producers' DGSO to buyers) will not be involved for NDGSO gas supply, meaning gas price will be higher and commercial terms based on bargaining power? Are the gas and power sectors ready for unregulated gas supply transactions, especially as the Multi Year Tariff Order (MYTO) II price of gas is tied to the fixed price under the Gas Pricing Policy? How can the NERC continue to protect power consumers from high prices through the MYTOs when unregulated gas transactions may have to exist for power generating companies to supply power?

The Nigerian Gas Company's (NGC) representative also identified that legislation in the gas sector is highly needed to encourage certainty and investment. He clarified that investment in the gas sector to encourage non-associated gas production will help boost gas supply. He encouraged the Federal Government of Nigeria (FGN) to synchronize private investment in the gas sector with the power sector if the FGN wants to meet the power reformation plans. An interesting point the NGC representative made to a potential gas pipeline investor was that the NGC is currently the only transporter of gas but there is no FGN planned monopoly of this sector.

It is fact that Nigeria has a greater potential for gas reserves than oil. Thus, the development of gas is vital not just for the power sector but for the nation's revenue increase. Gas development is highly capital intensive and potential investors will require certainty of their returns. Gas investment has previously been by

the IOC operators of oil fields and for export. With increased gas demand domestically and IOC's divestments of oil assets, more participation in the sector value chain- especially mid-downstream (aggregation, transportation, processing)- is required. The general consensus at the NBA EELC Conference was that the FGN must mid-wife this investment process just like in power. Perhaps, as the NERC Chairman stated, it may be necessary to unify the power and gas regulator to ensure unity in development of the sector - at least at this fragile initial stage of their market development processes.