

# Nigeria Gas flare Commercialization Programme: Policy, law and regulatory review

Issue 2020002

## Introduction

Gas flaring refers to the combustion of excess associated gas, coal and petroleum to eliminate unwanted chemical substances. In refining petroleum or processing gas, gas flaring is preferred by producers because of its ease at burning methane and permitting the non-stop pumping of oil. The reason for flaring, many have opined, is specifically to remove some volatile organic substance whose direct release into the environment (venting) can be very toxic, and, sometimes, for emergency pressure relief of industrial plant equipment. From a financial standpoint also, though controversial, it may be prudent to flare gases whose cost of capture and transportation is way higher than the end profit.

However, over the years, gas flaring has proven to be a major health and environmental problem affecting climate change because of its capacity to generate tonnes of greenhouse gases (carbon dioxide) which contribute largely to global warming, depletion of the ozone layer and acid rain. In Nigeria, oil companies alone flare over 313 million standard cubic feet of gas annually which results in the emission of 16.5 million tonnes of carbon dioxide making Nigeria the sixth- largest gas-flaring country in the world. Without doubt, all these make it imperative for the government to save its environment and citizens' health by regulating or ending gas flaring or venting during the process of gas or oil production.

In response to this, the Federal Government of Nigeria, in December 2016, launched the Nigeria Gas Flare Commercialization Programme (NGFCP) as a policy to end gas flaring in Nigeria by capturing and commercializing excess associated gas.

## The Nigerian Gas Flare Commercialization programme: An introduction

The Federal government of Nigeria, in 2016 launched the Nigeria Gas Flare Commercialization Programme (NGFCP) as a policy to end greenhouse gas emissions occurring through flaring or venting of natural gas in Nigeria. The policy is a framework put in place to provide a commercial approach to industrial gas flare and enhance positive socio-economic and environmental impact in the Niger Delta region, while also enhancing the overall development of the gas sector.

The NGFCP was established in line with the World Bank's Zero Routine Flaring Reduction initiative endorsed by the federal government in June 2016 and the Paris Climate Change Agreement of the United Nations Framework Convention set to end gas flaring by 2030 as a measure to fight global warming.

If the programme is successfully carried out and sustained, it is capable of stimulating the Nigerian economy with close to three billion dollars, reduce greenhouse gas emissions by an annual volume of 20 million tons, provide access to gas sufficient enough to generate at least 2.5 gigawatts of power and give close to six million Nigerian households access to clean energy through the use of cooking gas[1].



Photo Credits: istockphoto.com

## Objectives of the Nigerian Gas Flare Commercialization Programme

The NGFCP is set to achieve a national flare-out target by eliminating gas flaring through technically and commercially sustainable gas utilization projects in line with global commitment to fight climate change and end gas flaring by the year 2030.

Asides this global commitment, the NGFCP has been put in place to:

- eradicate the problem of environmental pollution from gas flaring particularly in Niger Delta communities where many of the oil-producing companies in Nigeria are located
- take advantage of flare gas in stimulating economic growth through commercializing associated gas
- drive private sector investment and provide direct and indirect jobs in oil producing communities. For instance, harnessing flare gas can contribute to the economy by fostering the delivery of additional volumes of gas for use by various sectors of the economy.



Another objective is to help improve basic infrastructure development like electricity. In large quantities, for instance, flare gas can be harnessed to produce heat and electricity. By siting power stations close to the oil or gas producing plants to help convert flare gas into electricity, Nigeria can increase its power generating capacity and transport more electricity to consumers.

### Explaining the Nigeria Gas Flare Commercialization Programme

By virtue of associated gas being a by-product in the oil or gas production process, it has no independent production cost, and as such no value is attached to it by the producers nor is any revenue being earned from it, thus, making it easy to flare without any or much economic effect. This is the basis upon which the federal government has premised the right to take associated gas (which hitherto would be flared if not taken) free of charge or in some instances, at an agreed cost.

Invoking the powers granted to the Minister of Petroleum Resources under the Petroleum Act, the government, free of charge and without paying royalty, takes associated gas from oil companies and bids it to third party investors in a series of competitive auction.

Third party investors will then propose projects and be selected based on their technical and financial strength, genuineness of their project proposals and some other criteria.



**The NGFCP if fully implemented and sustained has great benefit for the Nigerian economy, climate change and the citizens in general.**

**The NGFCP has the capacity of generating enormous economic benefit for Nigeria. It is projected that with a capital investment of three billion dollars, more than three hundred thousand direct and indirect jobs would be created for the teeming unemployed Nigerian population. It can also ensure the provision of 450,000 MT of liquefied petroleum gas (LPG) to over four million Nigerian households and generate close to 2.5gigawatts of electricity to help solve Nigeria's perennial electricity problem**

As requirements, each third party investor (applicant) is expected to demonstrate a high level of technical capacity for the design, construction, operation and maintenance of gas utilization, show sufficient project development experience in either owning or operating a gas processing or gas transportation project or any similar projects and prove application of commercial technology in its operations. For financial strength, an applicant is expected to provide a net worth of at least \$5million (1.9 billion naira)[6]. To ensure that qualified and trusted applicants get the bid, no applicant must have been debarred or be on the debarred list of Nigeria's anti-graft agencies, the World Bank or the United State Treasury Office Control list.

### Merits of the Nigeria Gas Flare Commercialization Programme

The NGFCP, if fully implemented and sustained, has great benefit for the Nigerian economy, climate change and the citizens in general.

The NGFCP has the capacity of generating enormous economic benefit for Nigeria. It is projected that with a capital investment of three billion dollars, more than three hundred thousand direct and indirect jobs would be created for the teeming unemployed Nigerian population. It can also ensure the provision of 450,000 MT of liquefied petroleum gas (LPG) to over four million Nigerian households and generate close to 2.5gigawatts of electricity to help solve Nigeria's perennial electricity problem[1].

The climatic benefit it has in Nigeria is also great. Covering about 170 flares sites in Nigeria, it is expected that close to 20 million tons of carbon dioxide emission is eliminated annually, and more than six million Nigerian households get access to clean energy. It is also projected that the NGFCP will reduce the risk of sabotage to oil facilities in the Niger Delta region by providing jobs, improving the quality of life and the overall standard of living.

Lastly, it would save the government billions of dollars lost to gas flaring annually and revenue used to fight or mitigate the effects of the negative environmental impact of gas flaring and the key operators in the industry, it is projected to provide a market driven solution for flare down, sustain



producers' upstream production of gas or oil and their safety and create a profitable commercial atmosphere for private investors.

### **Key consideration for new entrants in the industry**

It is true that the Nigerian Gas Flare Commercialization programme does not just provide an attractive commercial atmosphere for new entrants into the oil and gas industry as it ensures prudent exploitation and commercialization of flare gas for an already viable Nigerian market, it also ensures a greener and safer society for all as it forbids the release of toxic substances into the atmosphere. However, beyond these, there are still some key considerations for new entrants to take note of before diving into the industry.

One consideration is the commercial structure of the programme. By the guidelines of the policy, private investors are expected to contract with oil producers on the one hand and with the Nigerian government on the other hand. Oil producers are also contractually required to guarantee the production of specific quantities of gas and deliver same, otherwise they would be liable to compensate the off-taker each time the production volume is not met. This obligation contract must further comply with the templates prepared by the Department of Petroleum Resources. This arrangement raises the problem of viability and implementation because it appears to take the semblance of an agreement imposed by regulatory fiat. Because of this arrangement, it may take longer than usual to conclude and may even not be able to stand on its own or be capable of being implemented in full.

Aside this, because of this arrangement, it is not certain that flare gas producers will show any interest or long-term willingness to undertake such an obligation. For one, volume of flare gas is determined not by the flare gas producers but by the production of oil which, in itself, is determined by the operational and economic decisions of the oil-producing company. For instance, each time production of oil is scaled down, there would be a corresponding reduction in the volume of flare gas which will hinder meeting up with the specific production volume.

Meanwhile, in line with the policy agreement, payment of compensation awaits failure to meet the specific volume of flare gas. It is obvious from this that there can be no control over how much volume of flare gas is captured for commercialization. Hence investors should be wary of putting their money in a venture that they cannot influence the desired result.

Another consideration is the infrastructure deficit for the transportation of captured flare gas. Due to the remote locations and difficult terrain of flare points and the scarce availability of linking pipelines, investors will have a hard time sustaining their gas operations and transporting the flare gas. Even if they are able to transport it, the prevailing condition raises the issue of the security of the gas; transportation and supply can be disrupted at any point, and this has a negative effect on the expected returns. To curb this will require additional investment in building and maintaining the necessary infrastructure which is a high capital-intensive project on its own.

In addition, given the place of oil companies' assets in the production of flare gas for commercialization, how will the federal government guarantee profitable investments for the off takers? It seems that this will depend largely on the federal government's willingness to share or give up the offtake tariff received from the flare gas licensees to oil companies in order to ensure the supply of the flare gas and make it profitable. Also, how does the federal government intend to deal with oil companies having existing gas supply obligations to their private off takers? Would it mean that this would be stopped, and oil companies would no longer have the rights to commercialize flare gas produced for their own existing off takers?

### **Conclusion**

The NGFCP is a tremendous policy that would benefit the Nigerian economy if properly implemented. Nonetheless, there is still a lot to be ironed out with the contract arrangement, viability and total implementation of the policy. Because of its great economic and environmental potentials, great level of attention should be placed on the programme to achieve its desired goals.

## Bibliography

1. Isaya A. “THE NIGERIAN GAS FLARE COMMERCIALIZATION PROGRAMME: A WIN-WIN SITUATION?” [http://www.aalex.com/nigerian-gas-flare-commercialization-programme-win-win-situation/?utm\\_source=Mondaq&utm\\_medium=syndication&utm\\_campaign=LinkedIn-integration](http://www.aalex.com/nigerian-gas-flare-commercialization-programme-win-win-situation/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=LinkedIn-integration)
2. PWC (2019). “Assessing the Impact of Gas Flaring on the Nigerian Economy.” Available via: <https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.pwc.com/ng/en/assets/pdf/gas-flaring-impact1.pdf&ved=2ahUKEwjyqfnb4ILrAhUFYsAKHYObDI8QFjADegQIAhAB&usg=AOvVaw0TvGQoBmyKJvglOmeniZwd&cshid=1596585782465>
3. Ryan C., Racheal A (2019). “Flaring, or Why so much Gas is Going up in Flames.” Bloomberg Businessweek, September 10, 2019, via: <https://www.bloomberg.com/news/articles/2019-08-30/flaring-or-why-so-much-gas-is-going-up-in-flames-quicktake#:~:text=When%20an%20oil%20well%20begins,gas%20comes%20up%20alongside%20crude.&text=Flaring%20is%20preferred%20because%20methane,is%20released%20into%20the%20air.>
4. School Energy and Environment. “Natural Gas: Gas Flaring and Venting.” Retrieved on August 4, 2020 via: <http://www.eniscuola.net/en/argomento/natural-gas1/environment-and-territory1/gas-flaring-and-gas-venting/>
5. Taiwo-Hassan A. “How Nigeria's Gas Flare Commercialization will Work.” Premium Times Nigeria (April 13, 2019). Retrieved on August 5, 2020 via: <https://www.premiumtimesng.com/business/325262-how-nigerias-gas-flare-commercialisation-will-work.html>
6. The federal government of Nigeria (2019). “Nigerian Gas Flare Commercialisation Programme Information Memorandum.” [www.ngfcp.gov.ng](http://www.ngfcp.gov.ng)
7. Victor M. (2016). “Why We Flare.” Stanford University. Retrieved on August 5, 2020 via: <http://large.stanford.edu/courses/2016/ph240/miller1/>

## Disclaimer

This publication does not necessarily deal with every important topic nor cover every aspect of the topics with which it deals. It is not designed to provide policy, investment legal or other advice. If you do not wish to receive further information from Brickstone Africa about events or research or developments which we believe may be of interest to you, please either send an email to [nomorecontact@brickstone.africa](mailto:nomorecontact@brickstone.africa)



Brickstone is an **Accelerator** with strong competences in the **Appraisal , Advisory and Project Development** of large scale industrial and infrastructure projects in Africa.

## BRICKSTONE

- AGRI-INDUSTRIAL & HEAVY MANUFACTURING
- COMMERCIAL DEVELOPMENTS & HOSPITALITY
- ENERGY & NATURAL RESOURCES
- POWER & RENEWABLES
- TRANSPORTATION & LOGISTICS
- TECHNOLOGY INFRASTRUCTURE

### Address

9A Ibeju Lekki Street,  
Dolphin Estate  
P.O.Box 50939  
Ikoyi Lagos

Midel Center , Suite 106  
Plot 14, Off Oladipo Diya Way,  
Sector Centre D, Gudu District  
Abuja

### Telephone

+234-814 990 6488  
(Direct Line)

### Email

[hello@brickstone.africa](mailto:hello@brickstone.africa)  
[www.brickstone.africa](http://www.brickstone.africa)