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Power Sector Reform: Gas Supply

Executive Summary

- Nigeria is currently undertaking a highly ambitious reform programme in the power sector, designed to permanently move the sector away from the mismanagement and rent-seeking of public sector ownership to a private sector driven model.
- Gas supply is the single most important factor constraining additional energy output by an average of **1800 MW** per day.
- The NEMS facility sponsored by the Central Bank of Nigeria (CBN), in collaboration with FMoPR, FMoP and NERC – was developed to include obligations on gas suppliers to deliver additional quantities of gas.
- Specifically, the facility has built confidence and incentivised gas suppliers to deepen their engagement in the domestic gas market.
- Through ongoing monitoring of the delivery of additional committed gas, NIAF is positioned to support GenCos in activation of gas contracts and unlock this key constraint to sector growth.

The Challenges

Gas is the single largest feedstock for Nigerian power generation. Gas supply remains the principal constraint to increasing national power output.

A lack of transparency within the gas sector has contributed to opaque information on volume of supplies, precluding the ability to monitor performance.

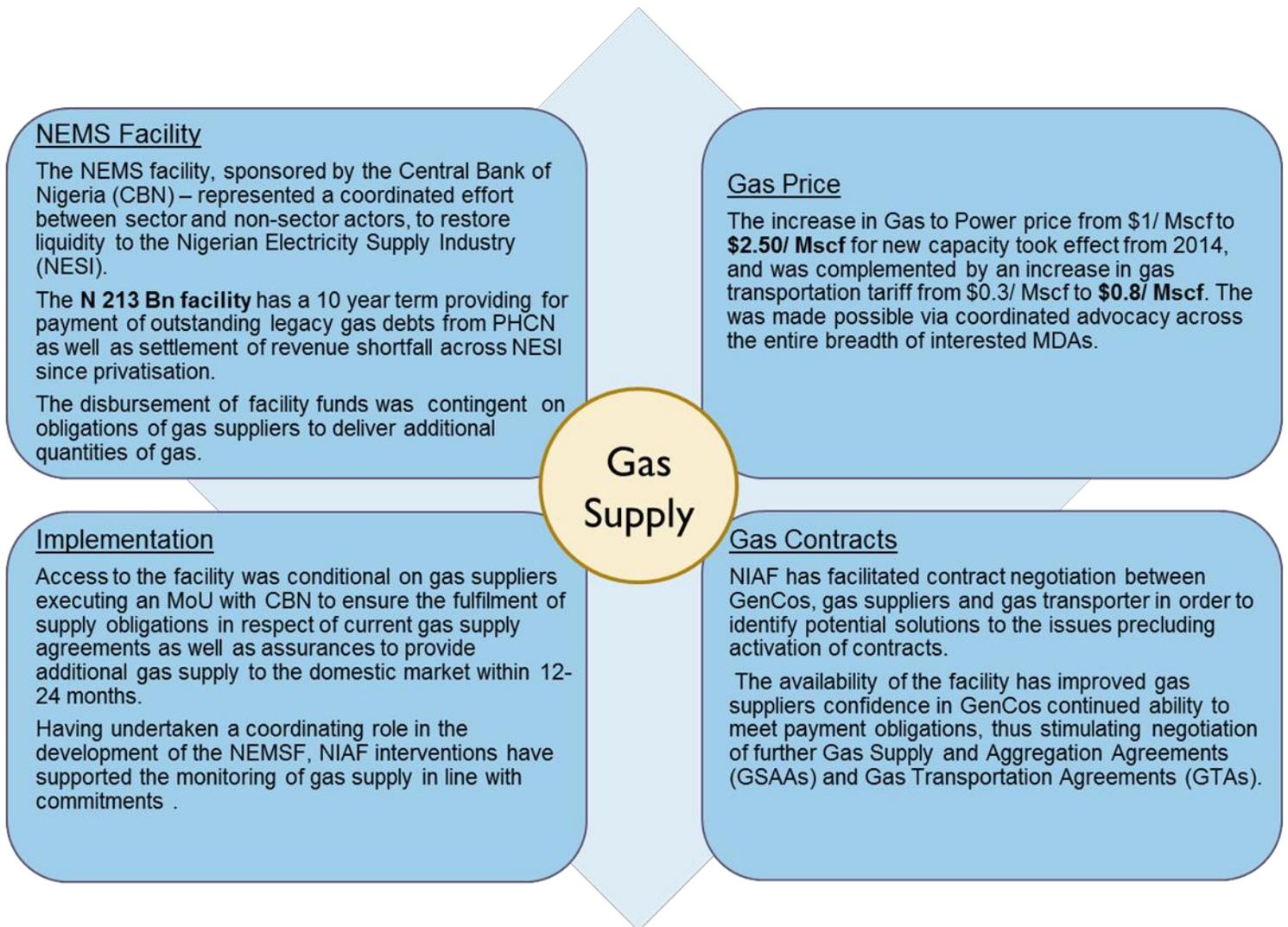


Gas suppliers have traditionally been resistant to increasing the volume of gas supplied for power generation given historic non-payment of gas debts

The sustainability of power sector privatisation is predicated on reliable financial flows from consumers to suppliers. This will incentivise increased gas sales to the sector and additional investment in gas supply infrastructure.

Domestic price for gas to power at \$1 / Mscf unattractive compared to the export price or bilaterally negotiated gas to industry tariffs.

The NIAF Approach



The Outcomes

- N36bn has been earmarked for the settlement of legacy gas debts from NEMS facility.
- The NEMSF is expected to result in c. 308MM/scf per day of new gas equating to c. 1,127 MW additional power delivered to the grid.
- The resulting power output to the grid is consequently expected to stabilise at 5,000 MW during 2015. At these levels gas no longer stands out as the binding constraint in the power value chain.
- Additional confidence in the market, coupled with a contractual mechanism for gas payment is generating the funding required to develop domestic gas supply infrastructure.
- Current projects are scheduled to bring 963MM/scf per day worth of capacity online during 2015.
- However, the ongoing activation of gas contracts remains a priority. This is the most efficient way to incentivise gas suppliers to meet their obligations. An increase in gas supply will not be sustainable unless enshrined contractually.
- Support on contract activation process is expected to yield results in the form of guaranteed supply of 235 MM/scf per day to Egbin plant during H1 2015, increasing its power output by 360 MW.