

# ***THE EVOLVING INTERNATIONAL GAS MARKET AND ENERGY SECURITY IN NIGERIA: REGULATORY AND POLICY ISSUES***

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## **Overview**

The role of gas in the global energy mix portends an increasingly international gas industry, with projections for medium to long term ‘oversupplied’ markets following developments like the shale gas revolution in the US, new significant discoveries in frontier regions like East Africa; resuscitation of Iranian gas supplies; supply project(s) initiatives in Russia and Australia etc. For countries with large proven gas reserves like Nigeria, the regulation and allocation of gas supply between LNG exports and its gas-dependent domestic power markets involves crucial economic, regulatory and policy trade-offs. These trade-offs largely border on the pricing and overall governance framework relating to both domestic supply security and policy approaches to reliability of export-related demand in the evolving international and regional gas markets. In such ‘Nigerian-like’ contexts and regulatory environment, gas producers typically favour supplying gas for LNG (through the Nigerian Liquefied Natural Gas Project) and other export channels like the West African Gas Pipeline project. This is largely because of the relative preferability of contract terms usually available from foreign buyers. However, from a government perspective, the trade-offs are more complex and involves striking an efficient balance between maintaining investment incentives for producers, maximizing royalty and tax income, and realizing much needed energy supply increases while reducing pass-through costs in the power sector. Basically, it involves matching the gains (if any) of the privatisation and liberalisation of the Nigerian electricity supply industry with an effective and efficient regulatory framework for domestic gas supply.

Despite Nigeria’s huge proven gas reserves and its longstanding reputation as a leading LNG exporting country globally, gas currently accounts for merely about 6% of Nigeria’s total primary energy supply. Furthermore, meeting the objective of 20 GW of generation capacity by 2020 for the power sector currently appears improbable. It will require more than doubling domestic gas supply from about 1.5 BCF per day to 3.4 BCF per day. Furthermore, developing the roughly 30 TCF of reserves needed to support such a production increase will require huge capital investments in the range of about US\$20 billion or more, mostly from private sector operators. Without adequate investments, timely completion of stalled and proposed gas commercialisation projects and securing necessary infrastructure, the current ‘energy supply crisis’ in Nigeria and its attendant energy security and reliability implications would most likely remain. The dynamics of gas production and utilisation in Nigeria becomes more complicated in the context of a potentially oversupplied international (export) gas market and the increasing commoditisation of gas in major regional consuming markets. This paper aims to examine the relevant regulatory and policy issues bordering on the security of domestic gas supply and export-related gas demand issues in Nigeria within the context of the evolving international gas market.

## **Methods**

An analytical and qualitative approach will be adopted in considering the energy security implications of the evolving international gas market on a ‘resource-rich’ but ‘energy-poor’ country like Nigeria. It will also involve a detailed review of existing relevant literature and reports in Nigeria and internationally on the subject of gas and electricity market reforms, liberalisation and principles of energy regulation.

## **Results**

The results from this study will form part of a suite of recommendations and remarks on the regulatory and policy issues relating to energy security in Nigeria within the context of an evolving international gas industry.

## **Conclusion**

Generally, an effective regulatory and governance framework should efficiently serve as a *means* to an *end* of attaining relevant economic and policy objectives. The need to boost domestic gas supply to the highly gas-dependent Nigerian power sector is equally as important as the need to ensure steady governmental revenue and income through gas exports. Effectively enhancing domestic energy security through gas supply (on one hand) and safeguarding the benefits of sustained gas exports (on the other hand) are not mutually-exclusive objectives. The dynamics of the evolving international gas market therefore has considerable ‘energy security’ implications for countries like Nigeria with significant proven gas reserves and considerable projections for the commercialisation of such reserves.

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