ENERGY INSIGHTS:
THE QUARTERLY

REVIEWS AND KEY HIGHLIGHTS OF THE NIGERIAN ENERGY SECTOR IN Q2

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EXECUTIVE SUMMARY

The second quarter of 2024 for Nigeria's energy sector demonstrated both resilience and ongoing challenges. Despite a decline in crude oil production due to infrastructure issues, policy uncertainty and security concerns, Nigeria maintained its position as Africa's largest oil producer. The country's crude output has been affected by pipeline sabotage and crude oil theft, but strategic efforts to bolster production and infrastructure security continues.

Significant strides were made in the natural gas sector, highlighted by the NNPCL and TotalEnergies' final investment decision on a major gas field, aimed at boosting both domestic supply and export capabilities. This aligns with Nigeria's strategic focus on leveraging its vast gas reserves to enhance energy security and support economic growth.

Renewable energy projects also saw progress, with increased investments in solar and wind energy. The government's initiatives to diversify the energy mix are critical for reducing dependence on fossil fuels and expanding energy access, although regulatory and financial challenges persist.

In addition, notable advancements were made towards establishing state electricity markets. Several states, including Ekiti, Enugu, Oyo, and Ondo, signed new electricity laws, leveraging the legislative powers granted by the Electricity Act, 2023. These developments are important in decentralizing the electricity market, enhancing competition, and improving power supply reliability across the country.

Overall, the second quarter of 2024 in Nigeria's energy sector was characterized by efforts to stabilize oil production, significant advancements in natural gas development, and ongoing progress in renewable energy investments. These measures are essential for enhancing the country's energy security and fostering sustainable sector growth.

This review highlights key activities and notable developments for the second quarter of 2024, offering a comprehensive overview for individuals, stakeholders and policy makers.

MARKET OVERVIEW

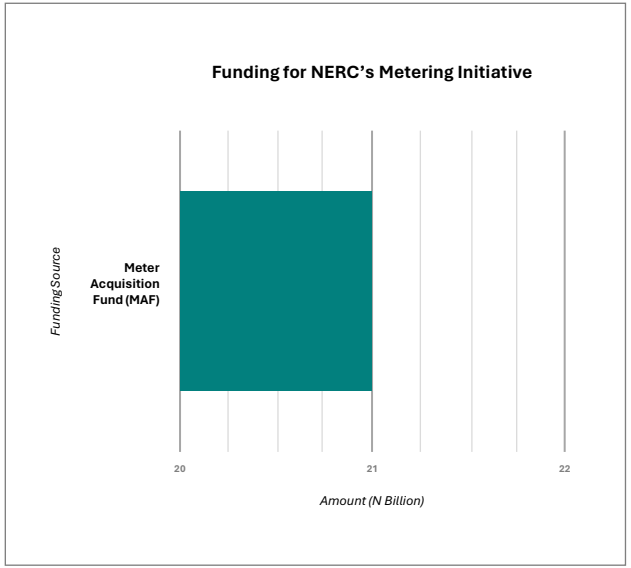
NOTABLE DEVELOPMENTS IN THE POWER INDUSTRY

During the second quarter of 2024, there were several notable developments in the power industry which include:

1. NERC approves N21 Billion for DisCos to meter end-user customers at zero cost

In an effort to address the widespread lack of electricity meters in Nigeria, the Nigerian Electricity Regulatory Commission (NERC) authorized N21 billion for the distribution companies (DisCos) to supply meters to end users at no cost. This initiative is part of the Presidential Metering Initiative (PMI) and utilizes a Meter Acquisition Fund (MAF). Previously, various metering options had been introduced, but they failed to significantly reduce the metering gap, which currently affects over 7 million customers.

NERC pinpointed the inability of DisCos to secure funding through loans or additional investments as a major obstacle to meter deployment. To address this, the MAF scheme was established. This scheme essentially creates a reliable revenue stream by utilizing market funds, allowing DisCos to obtain financing for meters and other essential investments.



2. TCN completes reconstruction of four vandalized towers in North-East

The Transmission Company of Nigeria (TCN) finished rebuilding four power transmission towers that vandals had damaged in Nigeria's North-East region. These towers were crucial for delivering bulk electricity to substations in the area. According to TCN's public affairs spokesperson, Ndidi Mbah, the repairs involved both rehabilitation and re-stringing the Jos-Gombe 330kV transmission line.

Initially, TCN aimed to complete the repairs by May 27th, 2024, but an unexpected setback occurred during the re-stringing process, causing one of the towers to collapse. This incident delayed the project's completion. Despite the delay, TCN successfully rebuilt all four towers, and the transmission line is now fully operational for bulk electricity transmission.

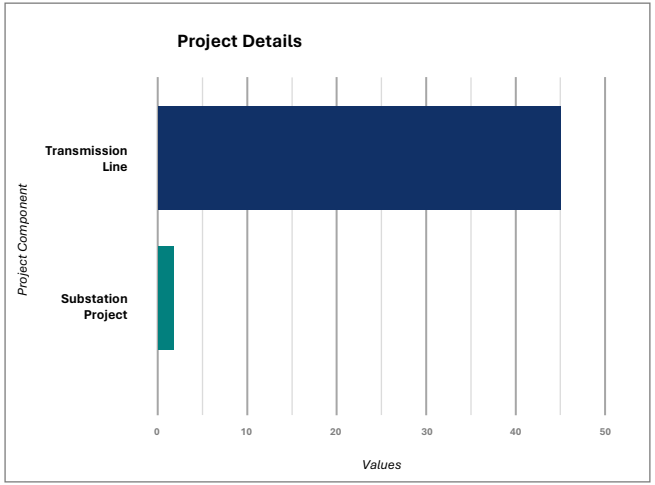
3. Ikeja Electric adds 24 new feeders to Band A under the newly revised tariff of N206/Kwh

Ikeja Electric Distribution Company (Ikeja Electric) expanded its Band A category by incorporating 24 new feeders. These feeders, previously under a different band, will now benefit from the recently increased tariff of N209.50per kilowatt-hour (kWh). This change comes after Ikeja Electric demonstrated its ability to consistently deliver a minimum of 20 hours of daily electricity supply during a performance evaluation period monitored by the Nigerian Electricity Regulatory Commission (NERC).

The qualification for Band A signifies a more reliable power supply compared to other bands. Customers on Band A feeders are promised at least 20-24 hours of daily electricity, justifying the slightly higher tariff compared to lower bands. The addition of these 24 feeders brings the total number of approved Band A feeders under Ikeja Electric to 128. This moves highlights Ikeja Electric's efforts to improve service delivery and potentially incentivize customers who experience frequent outages to switch to Band A.

4. Nigerian Govt inaugurates N8.3 Billion worth sub-station in Ondo communities after 15 years without electricity

The Federal Government of Nigeria has inaugurated a N8.3 billion sub-station Ode-Erinje in Okitipupa Local Government Area of Ondo State restoring electricity after 15 years of darkness. This significant infrastructure project aims to boost power supply, improve living standards, and stimulate economic activities in the region. The newly commissioned sub-station is expected to enhance the reliability of the electrical grid, reduce power outages, and support local businesses and households

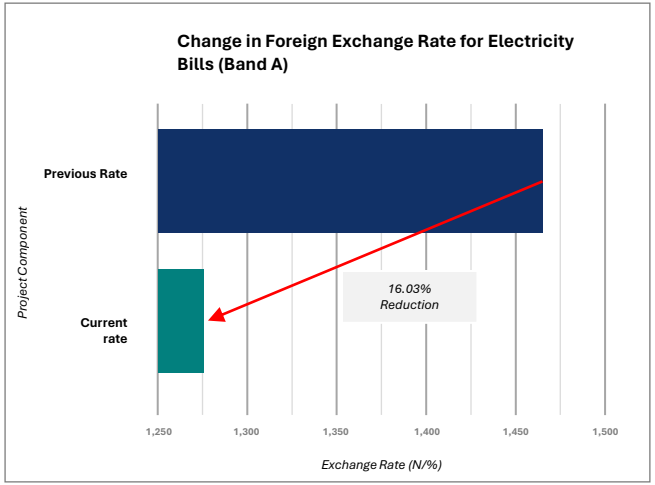


5. Power Sector achieves 5,000Megawatts in May for the first time in 3 years

In May 2024, Nigeria's power sector achieved a significant milestone by generating 5,000 megawatts (MW) of electricity for the first time in three years. This accomplishment, announced by the Minister of Power, Adebayo Adelabu, was reached on May 3rd, when the country generated, transmitted, and distributed 5,345MW of power. The achievement marks a substantial improvement from the typical generation levels below 4,000MW in previous years. This progress is attributed to efforts to enhance the power sector's capacity, including adding 700MW from the Geregu power plant and plans to integrate 3,000MW from utility-scale solar power sources within the next 24 months. The government's target is to reach 6,000MW by the end of the year, a feat that would be unprecedented in Nigeria's history.

6. NERC reduced FX rate for calculating new tariff for Band A Customers

In May 2024, the Nigerian Electricity Regulatory Commission (NERC) announced a reduction in the foreign exchange rate used to calculate electricity bills for Band A customers by 16.03% from N1,463.3/$ to N1,277.8 from May to December 2024. This followed a period of appreciation in the Naira's value compared to the US Dollar, and this reduction is in line with the NERC's Multi Year Tariff Order 2024. This adjustment came after an earlier increase in April 2024, where Band A tariffs rose significantly due to a rise in the exchange rate used for calculations. So, the May reduction partially offset the April increase.



7. NERC unbundles TCN , orders the establishment of new company for system operations

In a major move for the Nigerian electricity sector, the Nigerian Electricity Regulatory Commission (NERC) implemented a restructuring of the Transmission Company of Nigeria (TCN). This unbundling involved creating a separate entity to handle the critical functions of the system and market operation. The NERC Order mandated the establishment of an Independent System Operator (ISO), called the Nigerian Independent System Operator of Nigeria Limited (NISO). This new company took over responsibility for managing the national grid's operations and electricity market. Previously, these functions were handled by the TCN itself.

The unbundling is expected to improve transparency and efficiency in the electricity sector. NISO, as an independent operator, is theoretically less susceptible to conflicts of interest compared to TCN, which also played a role in transmission service provision. This separation of responsibilities aims to create a more reliable and well-managed national grid. The deadline for TCN to finalize the transfer of assets and liabilities related to system and market operations to NISO was June 30, 2024.

8. FG pegs electricity supply to international customers at 6% of available grid generation

The Nigerian Federal Government has placed a cap on the amount of electricity that can be sold to international customers. This new regulation limits international customers and off-takers to a maximum of 6% of the total electricity available on the grid at any given hour. This directive was issued by the Nigerian Electricity Regulatory Commission (NERC) to electricity generation companies.

The reasoning behind the cap is that the previous system of prioritizing international customers during grid instability was unfair and inefficient. Previously, domestic distribution companies (Discos) would receive less electricity during peak hours when international customers were prioritized. This led to inconsistent electricity supply for Nigerian homes and businesses, especially after a recent hike in electricity tariffs.

The new measure aims to improve the situation by guaranteeing a minimum of 94% of available power goes to Nigerian customers. The expectation is that this will lead to more consistent electricity supply. There is a caveat however, as the regulation allows electricity generation companies to allocate up to 10% of their capacity to international customers under exceptional circumstances, if approved by NERC.

9. FG inaugurates two siemens mobile substation, adds 625 Megawatts to national grid

In an effort to boost Nigeria's national electricity grid, the Federal Government (FG) inaugurated two Siemens mobile substations. This project increased the available power for Nigerians by 625 Megawatts (MW), bringing the total grid capacity to 4800MW. The announcement was made by the Minister of Power, Mr. Adebayo Adelabu, during the inauguration of the substations - a 63 Mega Volt Ampere (MVA), 132/33 Kilo Volt (KV) mobile station in Ajah, Lagos, and a 60MVA, 132/33KV power transformer in Birnin Kebbi, Kebbi.

10. NERC transfers regulatory oversight of the Ondo, Ekiti and Enugu electricity markets to state bureau

The Nigerian electricity market has undergone a significant shift with the Nigerian Electricity Regulatory Commission (NERC) transferring oversight responsibilities in Ondo, Ekiti, and Enugu states to their respective state-level regulatory bureaus. This move follows changes to the Nigerian Constitution and the Electricity Act of 2023. Previously, NERC held centralized control over the entire electricity market.

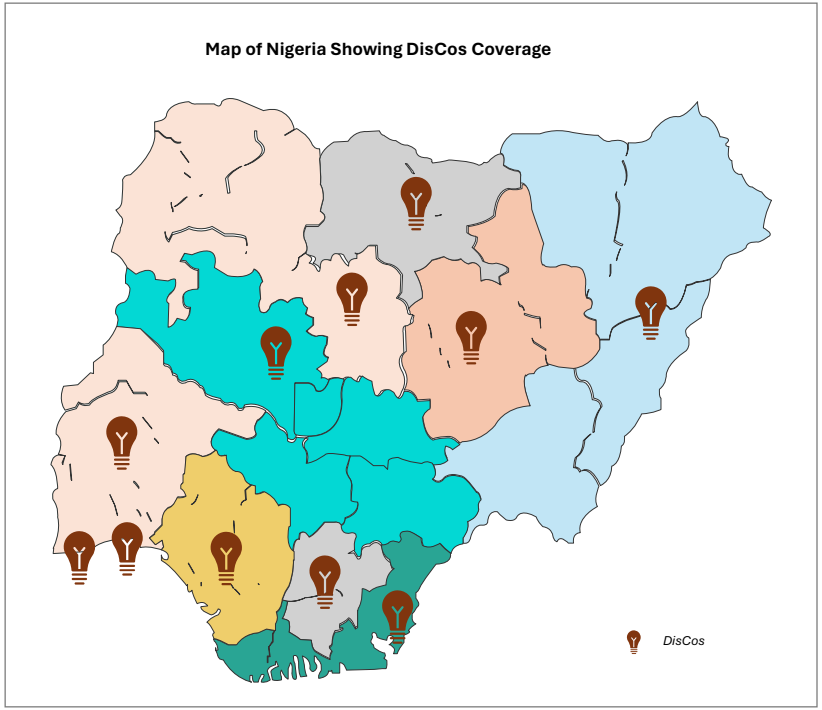
The transfer of authority empowers the Ondo State Electricity Regulatory Bureau (OSERB), the Ekiti State Electricity Regulatory Bureau (EERB) and a similar bureau in Enugu to regulate their state's electricity markets. This includes setting electricity tariffs for end-users within their state. However, NERC retains its role as the national regulator for inter-state and international electricity matters. This means NERC will continue to oversee the generation, transmission, trading, and system operations that occur across state lines or with other countries.

The expectation is that this decentralization will improve electricity delivery within these states. The state-level bureaus can focus on specific challenges and opportunities within their jurisdictions, potentially leading to more tailored regulations and solutions. It remains to be seen how this new system will function in practice, but it signifies a move towards increased autonomy for states in managing their electricity sectors.

11. FG commences unbundling of 11 DisCos along state lines

The Federal Government of Nigeria (FG) has embarked on a restructuring initiative for the country's electricity distribution companies (DisCos). This plan involves "unbundling" the 11 existing DisCos along state lines. The primary motivation behind this move is to address inefficiency and ineffectiveness blamed on the large size of the current DisCo structure.

One particular example is the Ibadan Disco, which currently covers a vast area of seven states. The government believes such expansive territories hinder effective management and distribution of electricity. Under the unbundling plan, the DisCos will be broken down into smaller units, ideally aligned with state boundaries. This would create a DisCo responsible for each state, potentially leading to several benefits.



KEY CHALLENGES IN FACED IN THE POWER SECTOR FOR Q2 2024

GENERATION

Nigeria has continued to battle with electricity generation problems to meet needs. This is even as the country continues to express commitment to the provision of electricity. Based on the most recent annual budget performance reports available, despite health sector needs, the country fails to fully cash-back capital expenditure for the power sector or even utilise the amount cash-backed.[1]

In the second quarter of 2024, Nigeria's power generation sector experienced significant operational challenges which continued to impede optimal electricity production. Despite having a substantial installed capacity, the sector struggled with various issues that affected the actual power available for distribution.

[1]Sahar Reporters. https://saharareporters.com/2024/06/24/under-tinubu-nigerias-electricity-generation-drops-700gigawatts-2024#google_vignette

Key Challenges

1. Operational Inefficiencies

a. Persistent inefficiencies due to outdated infrastructure and inadequate maintenance practices hampered the sector's performance. Power plants frequently operated below their potential, leading to reduced electricity output.

b. According to Nigeria's Minister of Power, Adebayo Adelabu, ten national power plants were operating at less than 10% capacity. This underutilization was primarily attributed to two factors: low gas supply and unpaid debts. Gas shortages hindered the plants from running at full capacity, while the unpaid debts owed to generation companies created significant liquidity issues.[2]

2. Gas Supply Constraints

a. The sector's heavy reliance on gas-fired power plants meant that any disruptions in gas supply significantly impacted electricity generation. This included issues such as pipeline vandalism and delays in gas delivery.

b. An instance of this is the explosion and subsequent fire that occurred along a gas pipeline north of Yenagoa near the Tombia-Amassoma road, Bayelsa State, on May 14, 2024.[3] This vandalism not only disrupted the supply but also caused significant delays in gas delivery due to the time required for repairs. The resulting gas shortages forced power plants to operate well below their capacity, drastically reducing electricity generation.

[2]Mr. Adelabu made this statement at the BusinessDay "Powering Nigeria's Energy Future: Addressing Infrastructural Challenges for Sustainable Energy Development" Conference held on June 7th, 2024 in Lagos.
[3]https://crisis24.garda.com/alerts/2024/05/nigeria-gas-pipeline-explodes-causes-fire-near-yenagoa-bayelsa-state-may-14

c. We also see that the crisis over awarding surveillance contracts to individuals without militant backgrounds has contributed to delays in gas pipeline operations. This has led to increased vandalism and sabotage by local militants and aggrieved parties, who are dissatisfied with the new contractors. The lack of effective surveillance has allowed for more frequent attacks on pipelines, causing significant disruptions in gas supply.

3. Infrastructure Deficits

a. Inadequate and aging infrastructure continued to be a major obstacle, with many facilities in need of upgrades and repairs. This often resulted in frequent breakdowns and reduced reliability.

b. Efforts were underway to address these issues, including infrastructure upgrades and improvements in gas supply logistics, but progress was slow due to funding and logistical challenges.

KEY CHALLENGES IN FACED IN THE POWER SECTOR FOR Q2 2024

TRANSMISSION

The transmission sector, managed by the Transmission Company of Nigeria (TCN), faced considerable challenges that affected the efficient delivery of power across the country.

Key Challenges

1. Infrastructure Limitations

a. The transmission network suffered from significant limitations due to aging infrastructure and a lack of modernization. This resulted in bottlenecks and frequent outages, disrupting the flow of electricity from generation sites to distribution points. i.e. On April 15, 2024, Nigeria's electricity grid collapsed. It did so for a record six times since the year began. According to the International Energy Agency, IEA, Nigeria's power grid collapsed 46 times between 2017 and 2023.

b. Also, the national grid system dropped to zero megawatts in June 2024, as a result of the complete disruption of power supply to all eleven electricity distribution companies in the country which was due to the Labor strike of the National Union of Electricity Employees (NUEE).

2. Ongoing Upgrades

a. Various projects to upgrade and expand transmission lines and substations were expected to have been completed. However, the progress of these projects was hindered by funding shortages and logistical issues, slowing the pace of improvements, i.e The Nigeria LNG Train 7 project which was recorded in June 2024 to have reached 65% completion, instead of a total completion as envisaged at the beginning of the year, the Assa North-Ohaji South Gas Project was expected to start commercial production in Q2 2024, etc.

3. TCN Tower Sabotage

a. Two transmission network towers, T193 and T194, along the Damaturu-Maiduguri 330 Kilo Volt (KV Single Circuit) transmission line were vandalized using explosive devices, severely hindering efficient power transfer. This deliberate act of sabotage not only disrupted the transmission of electricity but also created significant challenges in maintaining a stable and reliable power supply to the affected regions.

b. The damage to these critical infrastructure components meant that electricity could not be efficiently transferred, leading to outages and reduced power quality. Such acts of vandalism have broad implications, including increased repair costs, heightened security concerns, and potential delays in power restoration, all of which contribute to economic and social disruptions in the impacted areas.

KEY CHALLENGES IN FACED IN THE POWER SECTOR FOR Q2 2024

DISTRUBUTION

In Q2, we see that the distribution sector in Nigeria continues to tackle challenges while making strides towards enhancing operational efficiency and service delivery.

Key Challenges

1. High ATC&C Losses

a. Distribution Companies (DisCos) continued to experience high Aggregate Technical, Commercial, and Collection (ATC&C) losses. These losses were due to factors such as electricity theft, inefficient billing systems, and poor collection rates, resulting in substantial revenue losses.

2. Insufficient Energy Supply

a. DisCos faced significant challenges due to inadequate energy supply from the national grid, which hindered their ability to meet consumer demand effectively. This scarcity stemmed from various factors, including generation constraints, transmission bottlenecks, and infrastructural deficiencies.

b. Dependence on an often-unreliable national grid, coupled with aging infrastructure and insufficient investment in new power plants and modern transmission lines, exacerbated the issue. Consequently, DisCos struggled with planning and managing their operations, leading to frequent power outages and load shedding.

3. Service Delivery Issues

a. Consumers frequently faced unreliable power supply, with many areas experiencing prolonged outages. The inefficiency in service delivery was a major concern, affecting both residential and commercial users.

4. Regulatory Reforms

a. In response to these challenges, the Nigerian Electricity Regulatory Commission (NERC) implemented several reforms aimed at improving the performance of DisCos. These included stricter enforcement of service quality standards and efforts to make tariff structures more transparent and fair.

5. Revenue Collection and Non-Payment

a. High levels of electricity theft, meter bypassing, and non-payment by consumers posed a major threat for Discos in Q2. This resulted in revenue losses, affecting their financial sustainability and ability to invest in infrastructure upgrades and maintenance.

While the Nigerian power sector continued to face significant challenges in generation, transmission, and distribution during Q2 2024, there is still a hopeful outlook. The Electricity Act, 2023, played a critical role in setting a positive trajectory for the sector, focusing on improving efficiency, increasing private sector participation, and enhancing the overall reliability of the power supply.

These efforts are crucial for addressing the longstanding issues in the sector and ensuring a more reliable and sustainable electricity supply for Nigeria's growing population and economy

OIL & GAS SECTOR

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In the second quarter of 2024, Nigeria's oil production varied month by month. In April, the production was reported to be around 1.28 million barrels per day (bpd). By May, this figure had decreased to approximately 1.25 million bpd, as noted by the Organization of Petroleum Exporting Countries (OPEC).

Despite this drop in May, Nigeria maintained its position as Africa's top oil producer. Earlier in the year, in January, production was higher at around 1.43 million bpd, reflecting an increase from the last quarter of 2023 figures.

The fluctuation in production levels is attributed to various factors, including efforts to combat oil theft and improve production transparency While crude oil production has seen mixed results, the resumption of operations in certain fields like Awoba offers a positive sign. The natural gas sector is also poised for growth with increased infrastructures investments aimed at unlocking Nigeria's vast gas reserves. Ultimately, the Nigeria's oil and gas sector in Q2 2024 is characterized by significant infrastructural developments, policy shifts and potential for increased investment and production.

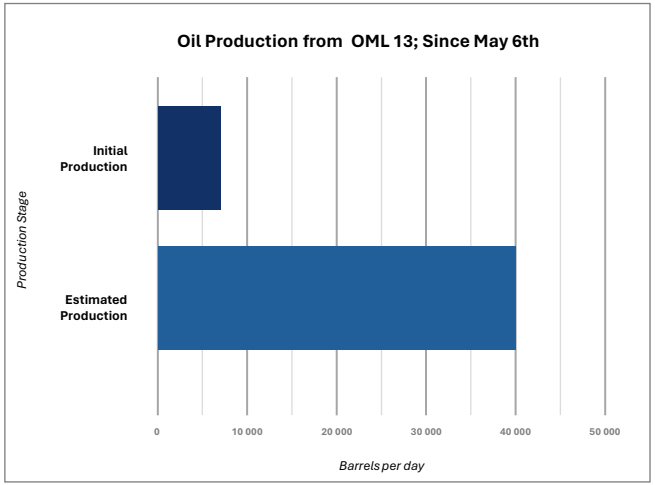
NOTABLE DEVELOPMENTS IN THE OIL AND GAS INDUSTRY

During the second quarter of 2024, there were several notable developments in the Oil and Gas Industry which Include:

1. NNPC, NOSL Commence oil production at OML 13, target 40,000bpd

In May 202, the Nigerian National Petroleum Corporation Exploration and Production Limited (NNPC E&P), a subsidiary of Nigerian National Petroleum Company LTD (NNPCL), commenced oil production at Oil Mining Lease (OML) located in Akwa Ibom State, Nigeria. Their partner in this endeavor is Natural Oilfield Services Limited (NOSL), a subsidiary of Sterling Oil Exploration & Energy Production Company Ltd (SEEPCO).

Production began on May 6, 2024 at a rate of 6,000 barrels of oil per day (bpd). This initial output was expected to be significantly ramped up to reach 40,000 barrels per day by May 27th, 2024. This project is seen as a major milestone for both NNPCL E&P and NOSL, signifying their commitment to the growth of Nigeria's oil and gas sector, a vital part of the country's economy. The development of OML 13 is also expected to bring economic empowerment and development opportunities to the surrounding communities.



2. Dangote Refinery begins exportation of first jet fuel to Europe

Dangote Refinery, Africa's largest oil refinery, marked a significant achievement in May 2024 with the commencement of its first jet fuel exports to Europe. This milestone signifies the rapid operational expansion of the refinery, which just began operations in April 2023. The inaugural shipment left the Lekki Free Zone in Lagos on May 27th aboard the vessel "Doric Breeze" and is currently headed for Rotterdam, Netherlands. This specific cargo was reportedly 45,000 metric tons of jet fuel, secured by British multinational BP through a 120,000 metric ton tender. While this is the first shipment to Europe, Dangote already exported six jet fuel cargoes earlier in 2024, all delivered to neighboring West African countries. The refinery is expected to further diversify its exports in the coming months. This venture into the European market demonstrates Dangote's ambitious goals and its potential to reshape the continent's fuel trade landscape.

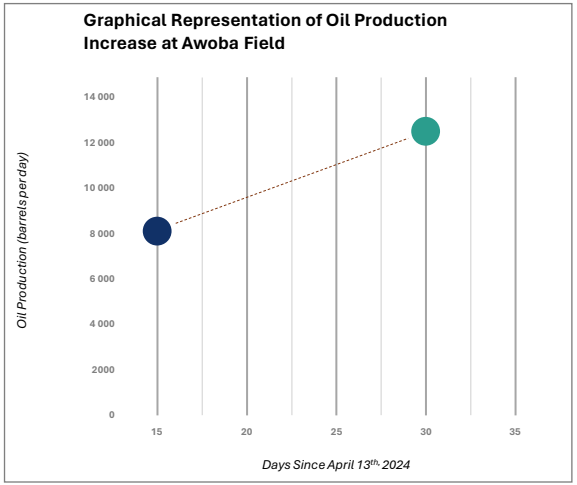
3. Nigeria launches 2024 licensing round to boost domestic oil and gas industry

In an effort to revitalize its domestic oil and gas industry, Nigeria's Upstream Petroleum Regulatory Commission (NUPRC) launched the 2024 licensing round in May 2024. This initiative aims to attract both international and local oil exploration companies by offering a selection of 12 oil blocks for bidding. These blocks include a mix of onshore and offshore areas, with some being carried over from the prior year's round. The Nigerian government hopes this program will significantly increase the country's oil and gas reserves and boost production.

NUPRC announced in June of an addition of 17 oil blocks to its 2024 oil bid round and the extension of the deadline for the registration and submission of pre-qualification documents to 5th July 2024. The Nigeria 2024 Licensing Round counts with 36 blocks located across onshore Niger Delta, the continental shelf, and deep offshore. In accordance with the guidelines, some of the blocks must be applied for as clusters, namely blocks PPL 300-CS & PPL 301-CS, PPL 2000 and PPL 2001. The NUPRC also reopened the commercial bid for the 2022/2023 licensing round to allow investors to take advantage of improved fiscal incentives approved by the Nigerian government to foster and encourage further investment in the Nigerian upstream sector.

4. NNPCL resumes production of crude oil in Awoba Field

In April 2024, the Nigerian National Petroleum Company Limited (NNPCL) restarted crude oil production at the Awoba Field located in Rivers State, marking the first time since February 2022 that the field had been operational. The shutdown was caused by difficulties transporting the oil (evacuation issues) and crude oil theft. Since resuming operations on April 13, 2024, the field has seen an average production of 8,000 barrels per day, with expectations to reach a stable output of 12,000 barrels per day within a month. This increase in production is anticipated to significantly boost gas supplies for power generation and other industries that rely on gas. The Awoba Unit Field is situated south of Port Harcourt and is jointly managed by NNPCL and Newcross Exploration and Production Ltd.



Overall, the Nigerian oil and gas sector in the second quarter of 2024 saw a fluctuating production output, marked by significant infrastructural developments and strategic initiatives. This signals a concerted effort to stabilize the industry and attract investment. However, in the coming quarter, we expect that efforts to combat oil theft and increase production transparency will lead to more stable output levels. Additionally, the continuation of licensing rounds and infrastructure investments is likely to boost exploration activities and enhance Nigeria's position in both the oil and gas markets.


RENEWABLE ENERGY

RENEWABLE ENERGY

In the second quarter of 2024, Nigeria's renewable energy market demonstrated substantial progress, propelled by key developments and government initiatives. Notably, the Renewable Energy Master Plan aims to increase the share of renewable energy generation to 23% by 2025 and 36% by 2030, with significant expansions in solar PV, small hydropower, biomass, and wind energy capacities.

Also, the current administration's Mission 30:30:30 targets achieving 30,000 megawatts of power by 2030, with 30% sourced from renewables, aligns with the broader objective of reaching Net Zero by 2060.

Over the past three months, renewable energy has made a notable contribution to Nigeria's energy sector, bolstered by continuous government efforts to expand its share. Currently, renewables account for approximately 14% of Nigeria's energy mix, comprising contributions from solar, hydro, and wind energy sources.

The Nigerian government actively promoted renewable energy as significant projects have been launched to enhance the country's renewable energy capacity.

NOTABLE DEVELOPMENTS IN THE RENEWABLES INDUSTRY

During the second quarter of 2024, there were several notable developments in the renewable energy industry which include:

1. FG to Provide Solar Subsidy in Nigeria through $750 Million World Bank Loan

The federal government plans to provide subsidies to developers and operators of solar mini grids in unserved and underserved areas in the country. The subsidy will be provided through a World Bank approved loan of $750 million under the Distributed Access through Renewable Energy Scale-Up (DARES) project. The loan project is fundamentally aimed at augmenting the supply of electricity to both households and micro, small, and medium-sized enterprises (MSMEs) through a surge in private sector-led distributed renewable energy initiatives. The loan once approved will be partly used to provide support to the development and operation of privately owned and operated solar hybrid mini grids in both unserved and underserved areas within Nigeria.

2. Rural Electrification Agency and EM-ONE partner to bring 350MW renewable energy to Nigeria

The Rural Electrification Agency (REA) and EM-ONE Energy Solutions (EM-ONE) have signed a Memorandum of Understanding (MOU) to pioneer the development and deployment of 350 megawatts of renewable energy projects across the nation. EM-ONE is set up to deploy up to 200MW of renewable energy capacity at commercial and industrial sites with large surrounding communities and an additional 150MW for health facility electrification. The strategic partnership signifies a concerted effort to fortify Nigeria's sustainable development objectives, aligning with the Federal Government's aspirations for carbon neutrality by 2060. Additionally, this MOU is a monumental stride towards bolstering Nigeria's renewable energy sector.

3. Edo State plans renewable energy for 50 communities

The Edo State government announced that plans are underway to light up 50 communities across the state in the first phase of its renewable energy projects. The government also pledged to extend the electricity projects to institutions of learning and hospitals. After the disclosure, there was an inauguration of a solar power project to supply 24-hour electricity at the Nigerian Army Military Hospital in Benin City. This initiative will attract investments, reduce greenhouse gas emissions upon completion, and promote sustainable economic growth. It calls for collaboration and partnership with private individuals or entities, innovation, and collective action towards a more sustainable future for Nigeria.

4. President Tinubu Announces Plans for the Local Manufacturing of Solar Panels and Electric Vehicle Batteries

Nigeria's president, Bola Tinubu, has announced plans for the local manufacturing of solar panels and electric vehicle (EV) batteries, positioning the nation as a production hub in Africa. Nigeria's local production of solar panels and EV batteries would have a significant impact on the economy, leading to job creation, reduced import dependence and lower costs. This project will also promote energy security and contribute to economic diversification. Additionally, it would generate government revenue, innovation, increase energy access for rural communities and reduce environmental impact.

5. NSIA, GIB Partner to Launch Assembly Plant in Nigeria for Renewable Energy

The Nigerian Sovereign Investment Authority (NSIA) through its vertically integrated renewable energy investment platform (RIPLE) has signed a Memorandum of Understanding with GIB EnergyX Slovakia to co-develop a state-of-the-art Assembly Plant in Nigeria to supply Battery Energy Storage Systems (BESS). According to the parties, the partnership will support RIPLE's renewable energy investments to supply commercial and industrial demand for 24/7 electricity. This partnership is pivotal in advancing Nigeria's clean energy goals and fostering long-term environmental stewardship. The initiative has the potential to revolutionize Nigeria's energy landscape and drive the nation towards economic prosperity, supported by sustainable renewable energy practices through solar generation and Distributed Smart Grid systems.

The outlook for Nigeria's renewable energy sector in the coming quarters is promising. With continued government support, international partnerships, and private sector involvement, the sector is poised for significant growth. Key areas of focus will include scaling up solar and wind projects, expanding rural electrification initiatives, and enhancing the regulatory environment to facilitate smoother project implementation.

The successful realization of these goals will not only contribute to Nigeria's energy security but also support its commitments to sustainable development and climate change mitigation.

LEGAL & REGULATORY UPDATES

NOTABLE DEVELOPMENTS IN THE LEGAL & REGULATORY UPDATE

1. FG Compels Oil Companies To Supply Crude To Domestic Refineries Before Exporting Crude Products

In April 2024, the Federal Government of Nigeria (FG) through the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) introduced new rules, mandating oil companies in Nigeria to prioritize supplying oil to domestic refineries before exporting crude products.

With this new development, oil companies must first fulfill their supply obligations to domestic refineries before exporting crude oil. This aims to reduce Nigeria's dependence on imported refined petroleum products like gasoline and diesel, as Nigeria has relied heavily on importing refined fuel, even though it's a major oil producer. This can be expensive and create supply vulnerabilities.

Importantly, the new rules allow for payments in either US dollars (USD) or Nigerian naira (NGN), or even a combination of both. This new rule, when implemented, increases local refining capacity. This will lead to reduced importation of oil produce thereby strengthening the FX, job creation and overall, boosting the economy.

2. Federal Government (FG) Gives Fresh Conditions for Gas License

The Federal Government of Nigeria has tightened the requirements for companies applying for gas licenses. In a bid to discourage the transportation of compressed natural gas (CNG) by road, the government will no longer grant licenses to companies that lack the capacity to build pipelines for gas distribution. This new policy stems from a recent CNG truck explosion in Abeokuta that caused casualties and property damage.

The Minister of State for Petroleum Resources (Gas), Ekperikpe Ekpo, announced the new licensing requirements during a visit to the explosion site. He emphasized the dangers of transporting gas by road, especially with the availability of pipelines like the Ajaokuta-Kaduna-Kano pipeline. The government hopes that by requiring gas companies to have pipeline infrastructure, they can significantly reduce the number of CNG trucks on the roads, thereby enhancing public safety and reducing pressure on the road network.

3. Central bank of Nigeria Circular on cash Pooling of Repatriated Oil and Gas Export Proceeds by International Oil Companies

The Central Bank of Nigeria (CBN) issued a circular on May 6, 2024, addressing the practice of "cash pooling" by International Oil Companies (IOCs) operating in Nigeria. The CBN's new regulation aims to increase the availability of foreign currency within Nigeria's financial system. The key points to note under this regulation are:

a. Cash Pooling Limit: IOCs are allowed to pool a maximum of 50% of their repatriated export proceeds. They can choose to pool this amount immediately upon receiving the funds or wait until needed.

b. 90-Day Holding Period: The remaining 50% of the proceeds must be held within Nigeria for a mandatory 90 days from the inflow date.

c. Utilization of Held Funds: During this 90-day period, the IOCs can use the held funds to settle various eligible financial obligations in Nigeria, such as petroleum taxes, royalties, payments to domestic contractors, and loan repayments.

d. CBN Approval for Repatriation: After 90 days, IOCs can repatriate the remaining balance, subject to CBN approval and completion of specific documentation requirements. These documents include a cash pooling agreement with the parent company, expenditure statements, and proof of foreign exchange source.

This policy aims to achieve a balance between allowing IOCs some flexibility in managing their funds and ensuring a sufficient level of foreign currency stays within Nigeria's financial system to meet domestic needs.

4. The Minister of Finance and the Federal Inland Revenue Issues implementation guidelines in relation to the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc., Order)

The regulatory landscape for oil and gas companies in Nigeria has become clearer with the release of implementation guidelines for the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order 2024 (the Order). Issued in April 2024 by the Federal Inland Revenue Service (FIRS) and the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), these guidelines detail how companies can benefit from the tax breaks offered by the Order.

A key takeaway is the Gas Utilization Investment Allowance (GUIA) administered by the FIRS. This allows midstream gas companies investing in new or existing gas processing and transportation infrastructure to deduct 90% of qualifying capital expenditure from their taxable profits each year. However, claiming this benefit requires companies to hold the necessary licenses from Nigerian Midstream and Downstream Petroleum Regulation (NMDPRA) and demonstrate qualifying expenditure on specific midstream operations. Additionally, they can only claim the GUIA after any existing tax-free period granted under the Companies Income Tax Act has expired.

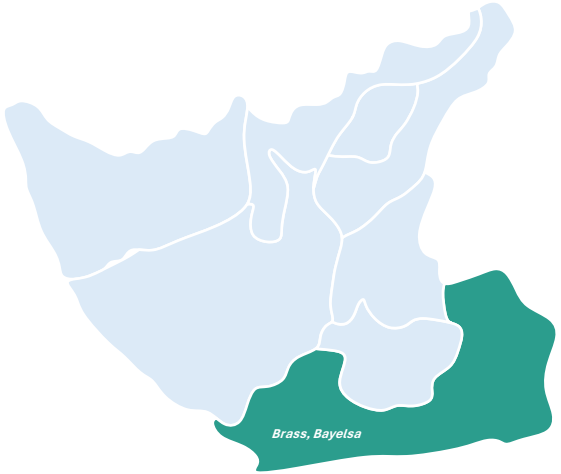
For companies developing Non-Associated Gas (NAG) fields, the NUPRC guidelines establish a method for determining the crucial Hydrocarbon Liquids Content. The amount of condensate (liquids) present in a NAG field directly impacts eligibility for gas tax credits under the Order. Only companies developing NAG fields with condensate levels between 0-100 barrels per million standard cubic feet of gas qualify for these credits.

It's however important to note that the Order itself has a sunset clause, meaning it will be replaced by formal legislation in the future. Additionally, companies pursuing NAG field development must achieve "first gas production" by January 1, 2029, to qualify for the associated tax credits. Overall, the release of these implementation guidelines provides a roadmap for oil and gas companies to navigate the tax incentives offered by the Order.

DEAL HIGHLIGHTS

1. Federal Government Secures Deal to Supply Gas to Shell's $3.8 Billion Methanol Plant

In April 2024, the Nigerian Federal Government reached an agreement with Shell to provide natural gas to their $3.8 billion methanol production facility planned for Brass Island in Bayelsa State. This agreement, called a Gas Supply and Purchase Agreement (GSPA), is a crucial step towards the project's final investment decision. Securing a reliable gas supply is essential for the methanol plant's operation. The deal involves a Shell-operated joint venture supplying gas to the facility over the long term. This project is expected to benefit Nigeria's economy by creating jobs and utilizing the country's abundant natural gas reserves.



$3.8 Billion Methanol production of Natural Gas to Shell

2. NNPCL Signs Agreement for the Construction of 100,000 BPD Capacity Facility Inside the Port Harcourt Refinery

In April 2024, the Nigerian National Petroleum Company LTD (NNPCL) signed an agreement with African Refinery Port Harcourt Limited (ARPHL) to construct a new 100,000 barrels per day (bpd) capacity refinery within the existing Port Harcourt Refinery complex. This project is aimed at increasing Nigeria's domestic refining capacity and reducing reliance on imported fuel products. The new refinery is expected to produce petrol, diesel, aviation fuel, and cooking gas for both local and international markets. The agreement is a significant step towards achieving Nigeria's goal of self-sufficiency in petroleum products. It is also expected to create employment opportunities for Nigerians

3. NNPCL, TotalEnergies Sign $550m Gas Production Deal

In June 2024, Nigerian National Petroleum Company Limited (NNPCL) and TotalEnergies, a French multinational energy company, signed a $550 million agreement for the development of the Ubeta gas field. This investment finalizes the project and marks a significant step towards boosting Nigeria's gas production. Located 80 kilometers northwest of Port Harcourt Rivers State, the Ubeta field is part of the Oil Mining Lease 58 (OML 58) territory, which already includes producing oil and gas fields. The project is expected to extract around 900 billion cubic feet of non-associated natural gas in total. Upon completion, the Ubeta field will produce 350 million standard cubic feet of gas per day. This gas will primarily be directed towards Nigeria's domestic market but will also contribute to the operational capacity of NLNG Train 7, a major liquefied natural gas (LNG) exporting facility in Nigeria. This deal is seen as a result of recent presidential initiatives aimed at revitalizing investment in Nigeria's oil and gas sector.

4. Shell Signs $100 Million Agreement with Oyo State Government to Build Gas Distribution Network Across State

In May 2024, Oyo State in Nigeria and Shell Nigeria Gas (SNG), a subsidiary of Shell, signed a $100 million agreement to construct a natural gas distribution network throughout the state. This 20-year Build-Own-Operate-Transfer (BOOT) project will see SNG build and manage the pipeline network for two decades before transferring ownership to Oyo State. The project includes a pressure reduction and metering station (PRMS) along with the pipeline infrastructure. Supplying gas to industries and businesses across Oyo State, this initiative is expected to be a game-changer for the state's industrial development. Benefits include increased revenue generation, job creation, and a more reliable and cleaner energy source for businesses. The project aligns with both Oyo State's plan for industrialization and Nigeria's Decade of Gas program, which promotes utilizing natural gas for national economic growth.

5. NNPCL Seals Offshore Agreement with North American Firm to Float LNG in Niger Delta

In June 2024, Nigerian National Petroleum Company Limited (NNPCL) and TotalEnergies, a French multinational energy company, signed a $550 million agreement for the development of the Ubeta gas field. This investment finalizes the project and marks a significant step towards boosting Nigeria's gas production. Located 80 kilometers northwest of Port Harcourt Rivers State, the Ubeta field is part of the Oil Mining Lease 58 (OML 58) territory, which already includes producing oil and gas fields. The project is expected to extract around 900 billion cubic feet of non-associated natural gas in total. Upon completion, the Ubeta field will produce 350 million standard cubic feet of gas per day. This gas will primarily be directed towards Nigeria's domestic market but will also contribute to the operational capacity of NLNG Train 7, a major liquefied natural gas (LNG) exporting facility in Nigeria. This deal is seen as a result of recent presidential initiatives aimed at revitalizing investment in Nigeria's oil and gas sector.

6. Federal Government Approved a $750 Million World Bank Funding for the Construction of 1,200 Mini-Grids in Rural Communities

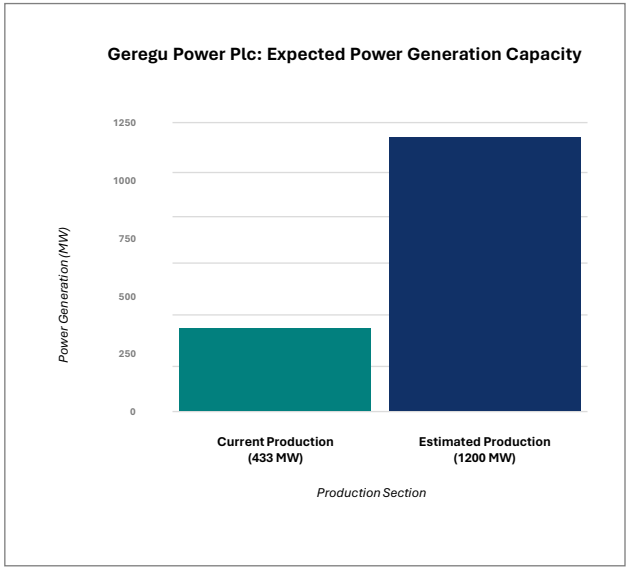
In May 2024, the Nigerian Federal Government secured a $750 million loan from the World Bank to finance the construction of 1,200 mini-grids in remote areas across the country. This initiative, known as the Distributed Access through Renewable Energy Scale-up (DARES) project, is a significant step towards expanding electricity access in underserved communities. The World Bank funding will be used as a capital subsidy to incentivize private sector participation in the project.

The project aims to bring clean and reliable electricity to an estimated 20.1 million Nigerians residing in off-grid communities. The plan involves deploying a mix of mini-grid technologies including isolated mini-grids for 3 million people, interconnected mini-grids reaching 1.5 million people, and solar home systems with mesh grids benefiting an additional 15.6 million Nigerians. This project is expected to be the largest public sector funded off-grid electrification project globally and is a major development for improving living standards and economic opportunities in rural Nigeria.

7. Geregu Power Signs Deal with Siemens to Increase Generation Capacity to 1,200MW

In June 2024, Geregu Power Plc, a leading Nigerian power generation company, signed a Memorandum of Understanding (MoU) with Siemens Energy to significantly expand their generation capacity. This agreement aims to boost Geregu Power's total output from 435 megawatts (MW) to 1,200 MW. The project focuses on achieving sustainable, efficient, and resilient power generation while extending the lifespan of Geregu's existing assets. This aligns with Nigeria's plan for a more robust and sustainable electricity supply industry (NESI).

The MoU outlines a three-pronged approach to reach the 1,200 MW target. Firstly, Geregu Power Plant 1 will undergo an upgrade to increase its capacity from 435 MW to 500 MW. Secondly, a 200 MW combined cycle operation will be implemented. Finally, a new 500 MW power plant, Geregu Power Plant 3, will be built using lower-emission turbines. These advancements are expected to enhance Geregu's power output, efficiency, and environmental footprint. The project is anticipated to benefit Geregu Power through increased earnings and shareholder value.



8. Terra Aqua Secures $10 Million Climate Finance from TLG Capital for Aluminum Recycling Plant in Ogun State

In June 2024, Terra Aqua, Nigeria's largest aluminum recycling plant, secured a significant $10 million climate finance investment from TLG Capital. This deal is a landmark for both Terra Aqua and Nigeria's sustainability efforts. This funding, designated as climate finance, reflects the project's positive environmental impact. Terra Aqua's recycling process boasts a 95% reduction in carbon dioxide emissions compared to primary aluminum production. The investment will reportedly enable Terra Aqua to recycle the equivalent of three Eiffel Towers' worth of aluminum over the next five years. Furthermore, the project is expected to generate 200 new local jobs and contribute to strengthening Nigeria's economy. This collaboration between Terra Aqua, TLG Capital paves the way for future sustainable development projects in Nigeria's industrial landscape.

9. Spiro Secures $50 Million Facility from Afreximbank to drive Electric Mobility in Africa:

In May 2024, a game-changer for Africa's electric vehicle (EV) industry unfolded. Spiro, a leading Nigerian EV company, secured a critical $50 million funding boost from the African Export-Import Bank (Afreximbank). This landmark deal positions Spiro as a frontrunner in driving electric mobility across the continent, with significant positive effects anticipated for Nigeria itself.

The $50 million facility will fuel Spiro's ambitious expansion plans, with Nigeria being a prime beneficiary. The company intends to utilize part of the funds to solidify its presence within Nigeria by deploying more automated battery-swapping stations and introducing new electric motorbike models. This enhanced infrastructure and wider range of eco-friendly vehicles will make electric transportation a more accessible and attractive option for Nigerian consumers.

10. NNPCL seals deal with Schlumberger to boost Nigeria's upstream operations

In May 2024, Nigerian National Petroleum Company LTD (NNPCL) signed a significant agreement with Schlumberger, a leading oilfield services company, to bolster Nigeria's upstream oil and gas operations. This technical partnership aims to unlock investment opportunities in the upstream sector, which focuses on exploration and production activities. The deal is expected to accelerate Nigeria's oil and gas production and support the country's gas utilization goals.

One key initiative is the development of a rig-sharing platform. This platform would streamline well drilling activities and associated operations in the coming years, ultimately contributing to increased crude oil output. Additionally, NNPCL expressed plans to leverage its existing assets to maximize the value derived from this partnership.

Schlumberger, with its 70-year presence in Nigeria, brings a wealth of experience and technological expertise to the table. The company is committed to investing in local talent and fostering technological advancements within the Nigerian oil and gas industry.

CONCLUSION

The Nigeria energy sector for Q2 2024 saw a significant surge in renewable energy projects, highlighting a good shift towards sustainability and diversification. The quarter was marked by notable advancements in solar power, with numerous initiatives launched across various states. Existing regulatory frameworks continued to evolve, supporting these developments through streamlined processes and incentives.

Simultaneously, the power sector saw advancements in infrastructure development and grid expansion, aimed at improving accessibility and reliability of electricity across the country. Initiatives such as the completion of new transmission lines and the launch of rural electrification projects highlighted the Government's efforts to enhance energy access nationwide.

In the oil and gas domain, Nigeria continued to focus on optimizing production efficiency and regulatory reforms. Exploration activities persisted with new discoveries and ongoing development projects aimed at increasing domestic production and meeting export demands. Regulatory improvements aimed at attracting investments and enhancing operational efficiency were also notable during the quarter.

Despite challenges like infrastructure limitations and market volatility, the energy sector-maintained resilience driven by strategic policy interventions and private sector participation. Looking ahead, sustained momentum in renewable energy adoption and strategic reforms in oil and gas are expected to shape Nigeria's energy landscape, fostering sustainable growth and energy security in the coming years.

ABOUT STREN & BLAN PARTNERS

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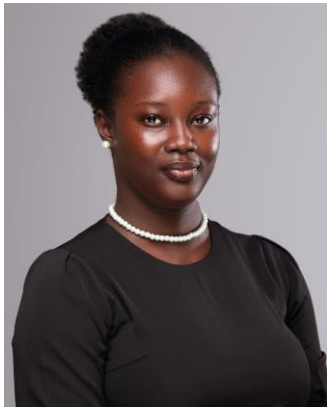

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