



Deregulation of the Nigerian downstream sector

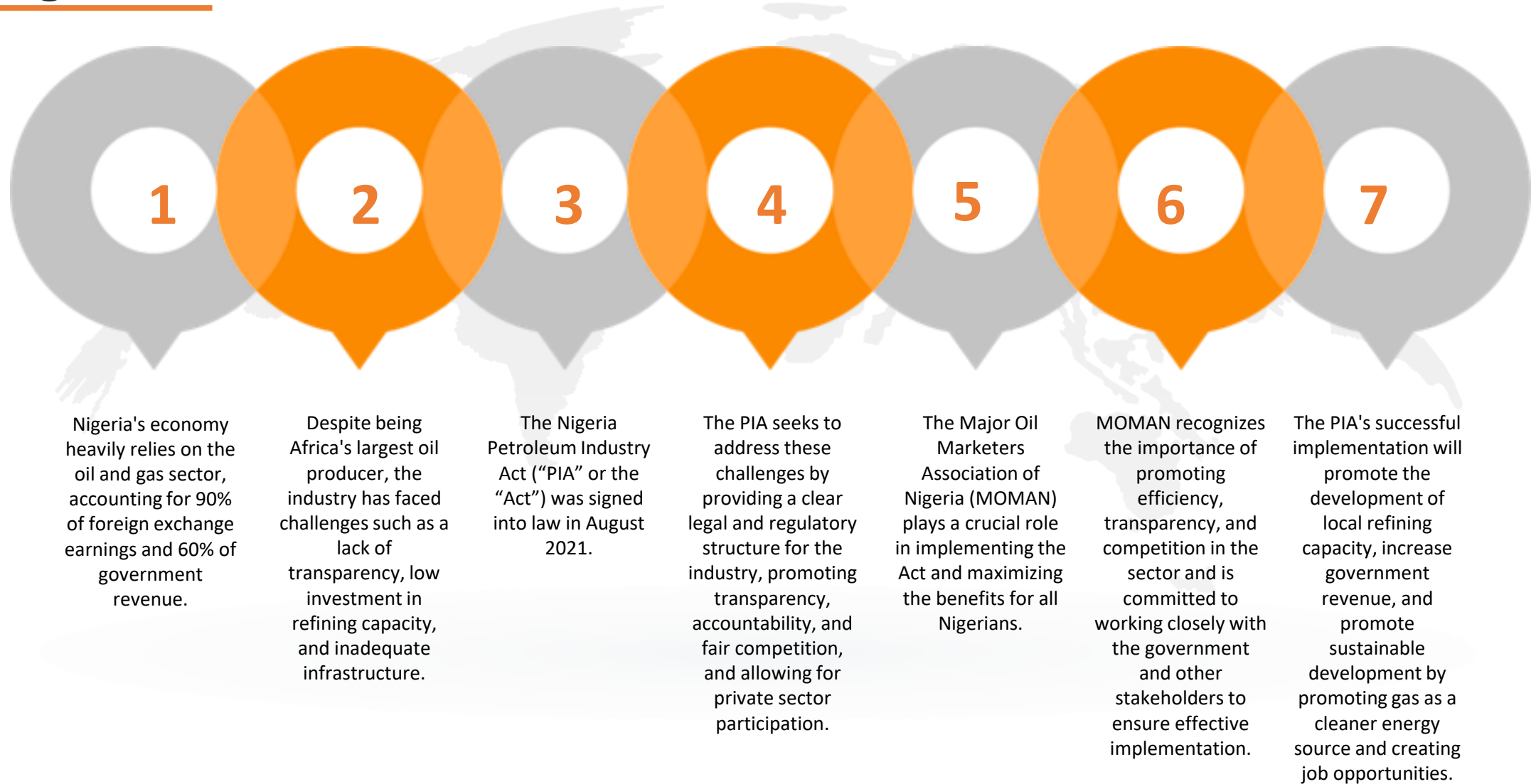
The Day After



Presentation Outline

- Background
- Discussing the sustainability of the industry
 - a) Supply and national logistics optimization
 - b) Consumer expectations
 - c) Corporate governance
 - d) Regulatory enforcement – Ensuring a level playing field
 - e) Cost recovery and pricing under price deregulation
 - f) The future of gas as a transition fuel
 - g) The day after – Identified risk areas
 - h) Key take aways
 - i) The way forward

Background





Supply and National Logistics Optimization

Provisions of the PIA

According to Section 108(2)(e) of the PIA, one of the functions of the National Midstream and Downstream Petroleum Regulatory Authority is to

"promote the optimization of the transportation, storage, and distribution of petroleum resources, including the development of national logistics infrastructure."

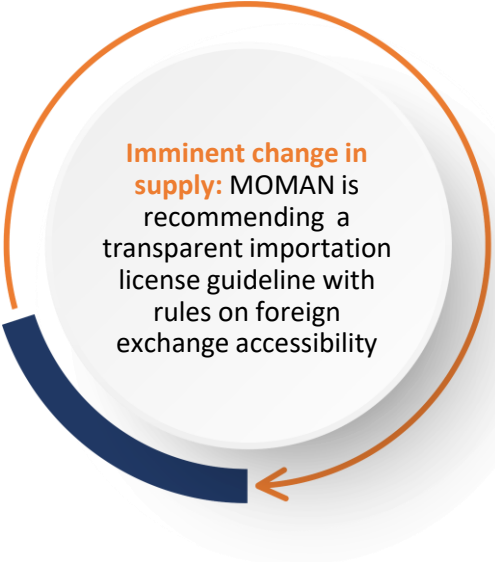
In addition, Section 102(2)(f) of the PIA requires the Minister of Petroleum Resources to ensure the optimization of the midstream and downstream petroleum sectors, including

"the development of logistics infrastructure and systems to support efficient and cost-effective transportation, storage, and distribution of petroleum resources."

Supply and National Logistics Optimization

What MOMAN is doing

Supply framework



Technology adoption



Policy and regulatory influence



Deeper and more meaningful use of technology

1 Adopt advanced **analytics/digital solutions to improve supply chain management** which can reduce inventory cost by up to 10%.

2 **Automation** use in terminals and refineries which can improve operational efficiency and reduce the risk of accidents.

3 Investment in the extensive network of pipelines and **open access to critical national infrastructure** to reduce transportation costs and improve delivery times.

Consumer Expectations

Provisions of the PIA

The PIA establishes that the Authority shall, in developing customer protection regulations consider existing procedures, practices and standards issued by the **FCCPC**

Products must be of the **highest quality** and consumers are not to be exploited by petroleum product marketers.



Consumers must be treated fairly, and their rights protected in all transactions with petroleum industry players.



Consumer Expectations

What MOMAN is doing



Sharing quality control processes and procedures: ensuring that petroleum products sold by its members meet the quality standards set by the NNPC Limited in consultation with relevant stakeholders.

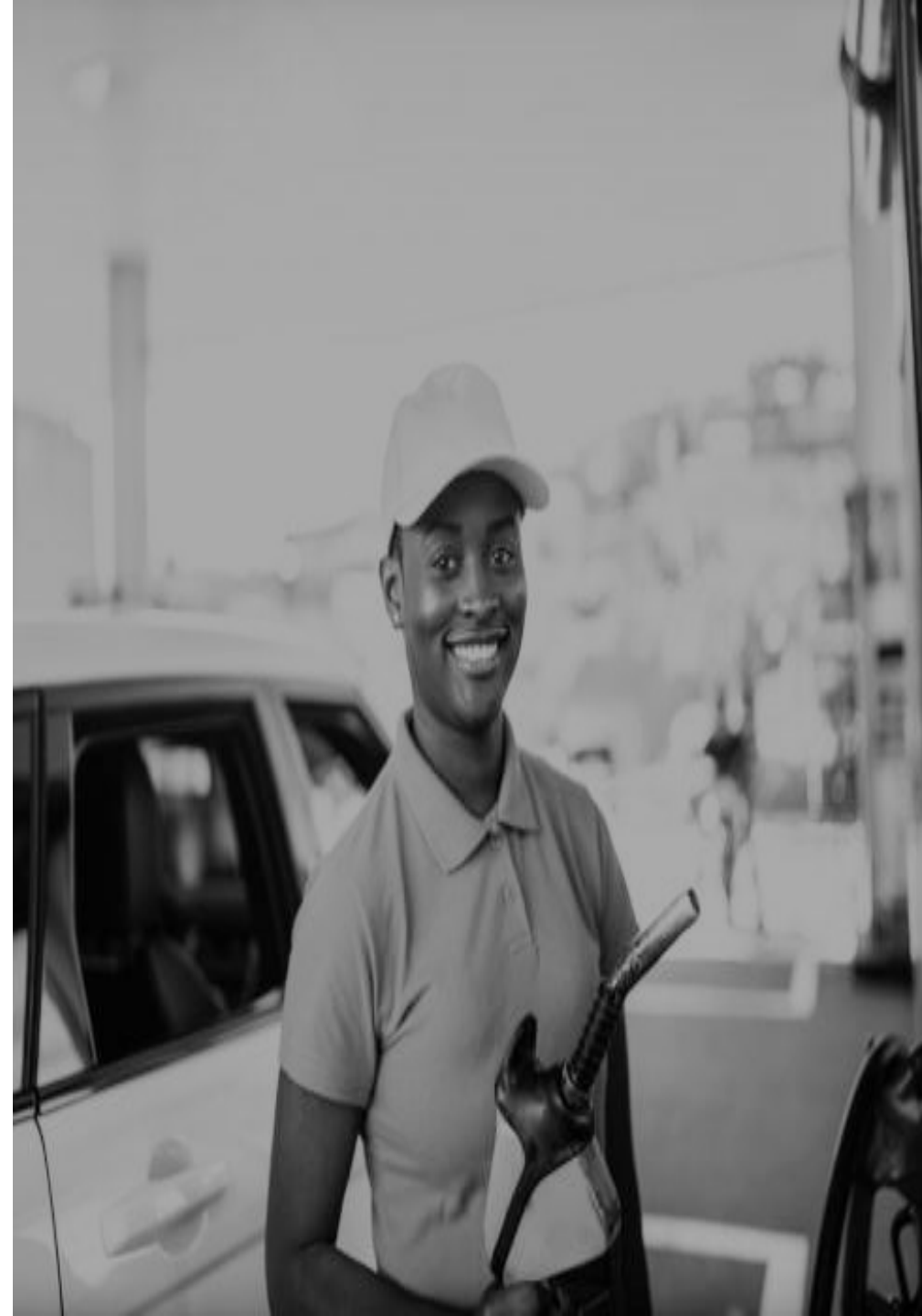


- Pump integrity
- Whistleblowing
- Compliance checks



Customer Service:

- Prioritize customer satisfaction.
- Implementation of customer service training programs for staff at retail outlets, as well as the adoption of modern customer service technologies.
- Cleaner fuel....



Corporate Governance

Provisions of the PIA

01

Section 62 of the PIA requires that NNPC Limited shall ensure that an annual audit of NNPC Limited is conducted by an independent, competent, experienced and qualified auditor.

02

The title "Auditing and Reporting Requirements" establishes the requirement for downstream operators to submit regular audits and reports to The Authority.

03

The PIA requires that every downstream petroleum industry operator in Nigeria to develop and implement a comprehensive risk management plan. Also, NMDPRA oversees and ensures compliance with safety and environmental regulations.

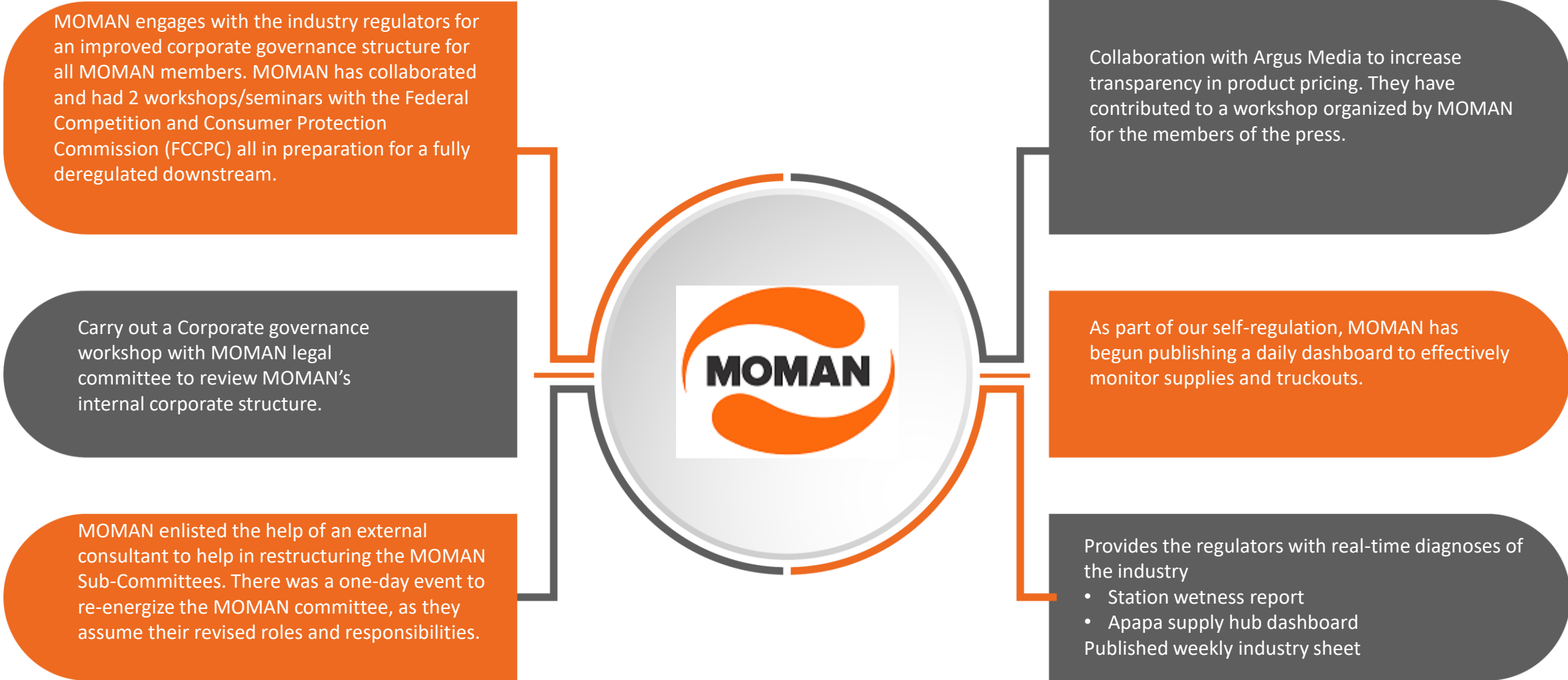
04

The Act emphasizes the need for downstream operators to conduct their operations in an environmentally sustainable manner, while also promoting social and economic sustainability. NMDPRA is empowered to enforce environmental and social regulations and to impose penalties for non-compliance.



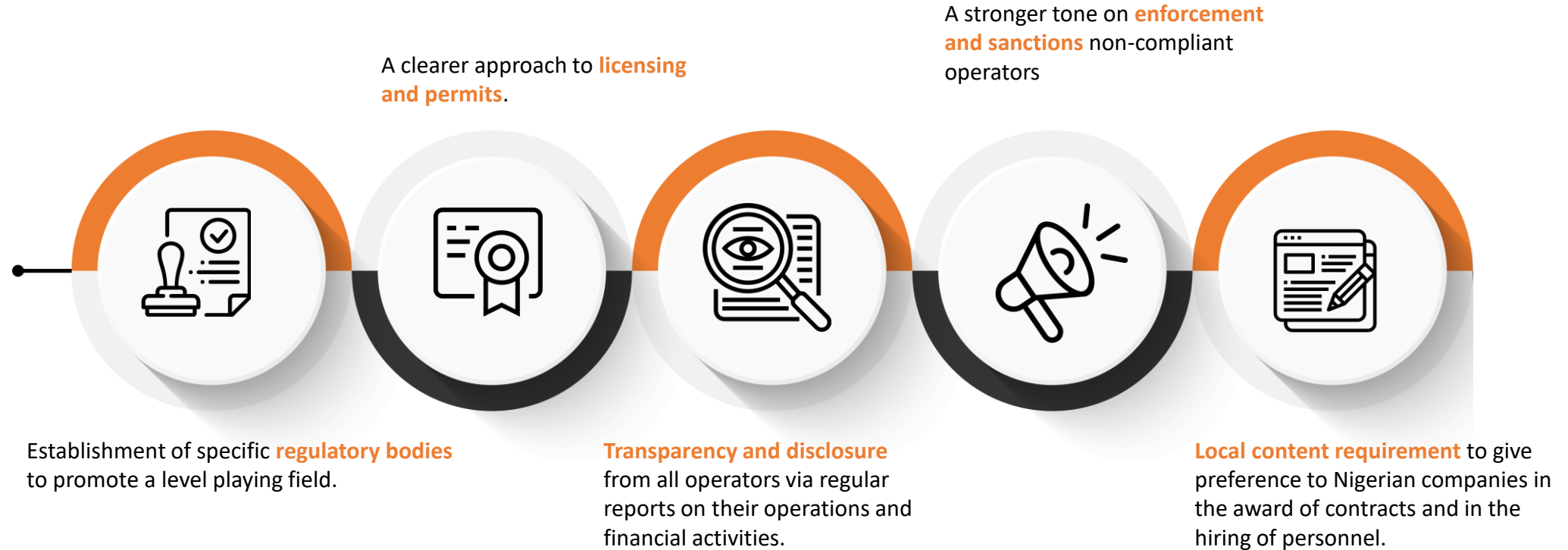
Corporate Governance

What MOMAN is doing



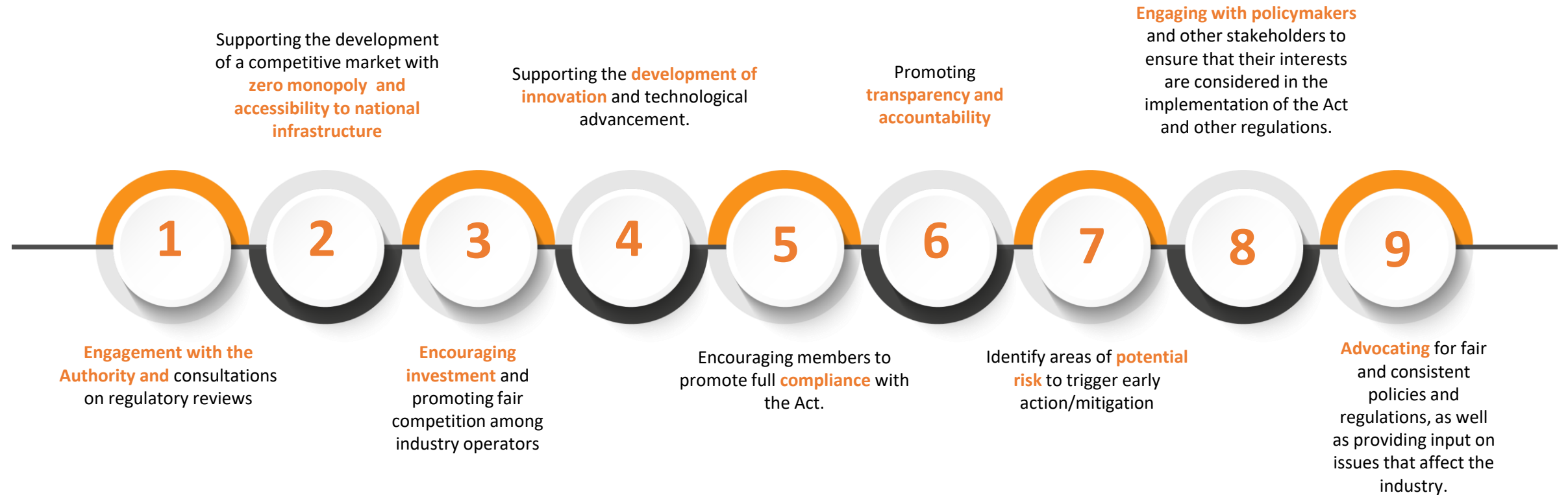
Regulatory Enforcement – Ensuring a level playing field.

Provisions of the PIA



Regulatory Enforcement – Ensuring a level playing field

What MOMAN is doing



Cost recovery and pricing under the PIA

Provisions of the PIA

1

Market-Based Pricing: Section 205 of the PIA mandates that prices of petroleum products in the downstream sector shall be determined by market-based principles.

2

Pricing Framework: Section 208 of the Act develops a pricing framework that will ensure reasonable returns to operators in the sector while protecting the interests of consumers.

3

Cost-Reflective Pricing: Section 207 of the PIA provides that the pricing of petroleum products shall be cost-reflective. This means that the price of a product should reflect the cost of producing, transporting, and distributing the product.

4

Price Monitoring: Section 169 of the PIA monitors the prices of petroleum products in the downstream sector to ensure that they are in line with the pricing framework. The Authority will also have the power to sanction any operator that contravenes the pricing regulations.

Cost recovery and pricing under the PIA

What MOMAN is doing

Pushing for full deregulation of prices:

Petroleum products are currently being sold at partially deregulated rates in different regions of the country using prices currently determined by the Authority. MOMAN continues to advocate for the total removal of petroleum subsidy to reflect unit prices that is reflective of macroeconomic and market realities.



Promoting Cost Efficiency: MOMAN is promoting operational cost efficiency across the sector by encouraging the industry to adopt best practices and automation in processing, transportation, and distribution of petroleum products. This will help cost transparency and drive competitive pricing.

Advocacy and Stakeholder Engagement – From Strategy to Operations:

- Quarterly engagement with the Authority
- Supply Committee meetings to discuss joint logistics in cargo reception
- Bi-weekly meetings between MOMAN team and NNPC trading Limited and NMDPRA has improved jetty operational efficiency and optimization. (from Nov. 2022 – Feb.2023, there was a reduced clearing time from about 38hrs to 28hrs respectively)

The future of gas as a transition fuel

Provisions of the PIA

The Act recognizes the **importance of natural gas** as a transition fuel towards a low-carbon future.

Prohibition of gas flaring
Within two years of the commencement of the Act.

Development of gas infrastructure including the construction of pipelines, storage facilities, and other gas-related infrastructure.

The use of natural gas for power generation and the establishment of a framework to support the sale of electricity generated from natural gas.



Development of the gas sector in Nigeria and facilitate the **transition towards cleaner energy** sources.

Commercialization of natural gas

Determination of gas prices, which is expected to promote the development of a competitive gas market and encourage investment in the sector.

The future of gas as a transition fuel

What MOMAN is doing in Natural Gas and LPG

Support for the implementation of the LPG Commercialization Program:

MOMAN, DAPPMAN and NGA control 100% of the LPG market share

Further advocacy/recommendation:

Promotion of gas-to-power: advocating for members' investments in gas-fired power plants e.g Sahara group.



Collaboration with relevant stakeholders:

Collaborating with relevant stakeholders such as the NNPC, and other players in the gas sector to promote the efficient use of natural gas resources and the development of a competitive gas market.

Encouragement of LPG investments:

- Backward integration: Ardogreen
- Gas processing
- Storage capacity: Ardova's 20,000MT LPG storage
- Bottling capacity
- The use of CNG as PMS alternatives

Promotion of gas utilization:

Promoting the utilization of gas in other sectors of the economy, such as transportation, manufacturing, and agriculture.

The day after

Identified risk areas

Supply

- Changes in supply framework (pre-Dangote, post-Dangote)



Hoarding

- Artificial scarcity
- Increase in black market sale



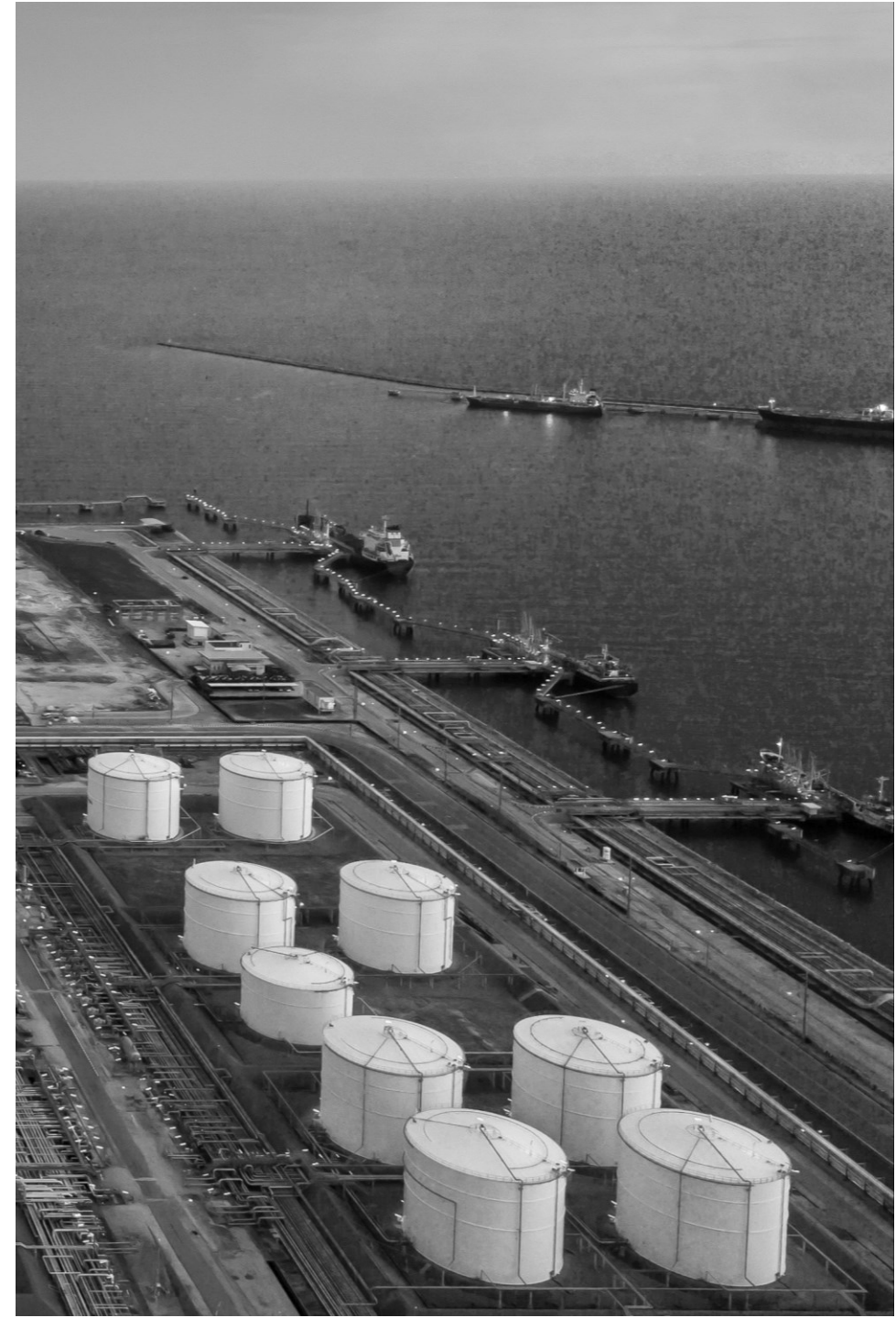
PMS pump price

- Immediate increase in PMS pump price
- Public backlash



Product volumes

- Immediate decrease in the volume of PMS in circulation.
- Possible increase in unit margins to compensate for low volume





Key take aways

The full implementation of the Nigeria Petroleum Industry Act is expected to have a positive outlook for the downstream sector, leading to:



- **Reduction in fuel importation:** Possible savings of \$15 billion per year on fuel imports after the implementation of the Act.
- **Encourage investment:** Free market pricing can encourage investment in the downstream sector, as it provides a level playing field for market players to compete fairly.
- **Increased efficiency:** In a free market system, suppliers are forced to be more efficient and innovative in order to remain competitive. This can lead to improvement in technology and processes which can ultimately result in cost savings for both suppliers and consumers.

The Way Forward



Risk management and self-regulation

- Promoting best practices in HSEQ
- Managing customer expectation
- Supply, price volatility and exposure to international markets



Effective change management

- Palliatives (Public transportation & Agro transportation)
- Plan for and begin implementation of Net Zero
- Identify the potential pitfalls and plan to mitigate them
 - Access to FOREX/trade finance (opening LCs)
 - Strategic stock
 - Access to crude for refineries
 - Open access – optimizing (funding, managing and operating) country logistics infrastructure (pipelines, pumping stations and storage depots)



Communication, engagements and collaboration

- Identify/highlight new jobs and opportunities
- Domestic stakeholders (operators, CSOs and the public)
- Communicate progress on palliative promises
- Connect regional markets (Nigeria as the regional refining hub)
- International markets (rating agencies, finance and governance institutions, COP)



Economic Development

- Increased job opportunities
- Growth of ancillary industries



Thank You

