Topic: Regulatory and Competitive Policies required to attract investment in the current global low oil price regime.

Distinguished Ladies and Gentlemen, Captains of the Industry, Friends and Colleagues, I am particularly honoured and most delighted to be invited as a Guest Speaker at this year's Annual Oloibiri Lecture Series and Energy Forum (OLEF) organized by Society for Petroleum Engineers, Nigerian Council. Coincidentally, this is the 25th Silver Jubilee celebration of the Oloibiri lecture series.

The theme for this year's Lecture "***Technological advances in Hydrocarbon Exploration and Exploitation: Solutions to Global Oil Price Stability***"is apt considering that the global oil industry is witnessing unprecedented turmoil and crude oil prices have been spiralling downwards due to falling demand and increasing supply which has then created a glut in the market. The falling oil prices do not show any form of abatement in the short term considering that sanctions against Iran have been lifted, crisis in Syria and the legislation in the USA has been revised to enable it join the league of oil exporting countries. By implication, more volumes are expected to flood the market barring any unforeseen circumstances.

In terms of exploration and exploitation, there is no gainsaying the fact that the industry requires novel, cost-effective front-end exploration technology and also efficient drilling technology that ultimately minimizes the cost of finding hydrocarbons and optimizes their rate of production. However, at the current low crude oil prices which are a far cry from the peak of $147 per barrel recorded in mid-2008, we need to look inwards and make appropriate internal reforms and economic adjustments to attract the right investments into our industry.

I have been requested to speak on the topic- "***Regulatory and Competitive Policies required to attract investments in the current global low oil price regime".***

The topic before me is in two (2)fold with regards to the current low oil price regime; 1. *Policies and 2. Attracting investments.* The topic presupposes that there is a nexus between policies and investments and I quite agree. However, formulating the right policies alone will not attract investments; Formulation must be backed up with effective implementation before the right investments can be attracted in the current clime.

As you will rightly recall, as part of the strategies to improve the governance, regulatory and fiscal framework of the oil and gas sector, the Federal Government embarked on the oil and gas reform program and issued an Executive bill (The Petroleum Industry Bill – PIB)for consideration. The delay in the passage of this Bill has constrained investment into the sector to the extent that exploration activities wereat its lowest ebb. The level of reserve addition could not match the rateof production. Additionally, with the collapse in crude oil prices, the window for fiscal change may have narrowed considerably.

What sort of regulatory policies do we require to attract the right investments in this low oil price regime? Let me state here that while low oil prices may not be good for producing countries, in the long run, it may also not be good for consuming nations. Low oil prices lead to increased dependence and consumption whilst also choking off the will to investigate other alternative sources of energy. This has the tendency to promote wastage and also increase the level of environmental pollution. Herein is the opportunity for our regulatory agency –Department of Petroleum Resources (DPR) to come up with appropriate policies to attract the right investments to handle threats and opportunities from the backdrop of low oil prices.

How competitive are our policies to attracting the right investments in the current low price regime? Permit me to state here that fiscal terms act as the contractual balance between the financial objectives of Government and our Investors. Consequently, a good policy is the balance between the divergent interests and objectives of the Government and the investor company.

In comparison to other countries, the current fiscal terms are very much attractive. For example, an analysis carried out by WoodMckenzie shows that the Nigerian fiscal system for deep offshore is the most attractive with the lowest Government take. The current reforms through the instrumentation of the PIB aims at tightening the fiscal noose to guarantee better government take. For example, as part of our current efforts towards the commercialization of our gas resources, we intentionally did not prescribe the fiscal and contractual terms for PSC gas. Thus in order to harness PSC gas, gas terms would have to be developed.

We are looking to negotiate fiscal terms for compensation for gas development with each contractor party with respect to the different PSCs to ensure fairness and competitiveness across board.

As you are aware, the basic principle governing PSCs is that the Contractor party elects to invest in a lease owned by a concessionaire for which upon success, recovers the cost and enjoys a return for its investment. Beyond any imposition by the state, the contractor receives a recovery of cost (Cost Oil/ gas) plus interest/ compensation for the cost incurred (Profit Oil/ gas).

Nigeria's fiscal laws allows the recovery of gas expenditures from oil income an incentive referred to as AGFA which implies that contractor entities may elect to recover gas cost from oil income and as such receive compensation in profit oil.

The fiscal and contractual terms for PSC gas cannot be prescribed without a determination of the capacity of oil income to bear gas expenditures as may be appropriate because gas income is often time insufficient to profitably cover gas expenditures.

All associated PSC gas fields are to be accessed for the appropriateness or otherwise of profit gas and the probable percentages that would meet the economic interest of the contractor as specified by the PSC.

In computing the compensation required, a simple test known as the dominant resource rule is appropriate. Where the resource size is mainly oil, the dominant resource rule means that profit oil may be the most appropriate mechanism for compensation. However, where gas is the dominant resource, profit gas may be the most appropriate mechanism for compensation. Outcome of this test will enable Contractors to book reserves on the allocated compensation mechanism.

The three compensation mechanisms are summarized thus:

1. **Oil dominant resource:** compensation through profit oil and a service fee not exceeding 10% of the profit gas.
2. **Gas dominant resource:** compensation through gas, to be tested for appropriate profit gas allocation percentage.
3. **Oil-Gas dominant resource:** compensation through proportion of oil and gas, to be tested for appropriate mix of profit oil and profit gas.

In the current low oil price regime, the obvious panacea would be innovative and cut the cost of oil production whilst also aiming to increase the rate of production. In another breadth, the Federal Government has announced that effective from January, 2016 the gas price to power and transportation tariff for the Power Sector is \$2.50/Mscf and \$0.80/Mscf respectively. This policy intervention is intended to stimulate the domestic market, attract investment and also deter the preference of IOCs for gas export.

In the NNPC, we are taking some stern measures to address the effect of sliding crude oil prices. Some of which include;

1. Placing more emphasis on gas commercialization, processing of gas into high value products for both domestic and export.
2. Effective use of new technologies, rig less operations and new crude oil enhancement methods to increase production.

3. Focus on low cost high –yield production and development and seeking alternative funding for them to relieve Cashcall burden on the Federal Government.Recently, we concluded the $1.2Bn NNPC-CNL JV Accelerated Upstream Financing Programme which is intended to add an incremental 41kbopd and 127MMscfd of gas over 3 years.
4. Aggressive cost reduction in both CAPEX and OPEX through negotiation, re-negotiation and rigorous bench marking.
5. Diversification of business by venturing into downstream gas-based business, thermal power generation as well as renewable energy. NNPC Power Limited has recently been incorporated.
6. Incorporation of the Joint Ventures starting with divested assets to allow the venture secure funding for its growth.
7. Synergies in joint development of assets and joint utilization of both crude oil and gas pipelines and terminals.

The conference is therefore challenged to take advantage of the policy interventions of government to come up with innovative ways to enhancing crude oil and gas production at low cost. These are some of the ways out of the current situation.

Distinguished Ladies and Gentlemen, I thank you for your attention.

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