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Oil and Gas Performance and Outlook

Oil Production and Revenue Challenges: Resolving Issues around Crude Supply and Pricing, and High Energy Costs.

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Oil Market Drivers: Global Factors

- Lower inflation and rate cuts could jumpstart investment spending, which will pull oil demand
- Despite the decarbonization agenda, fossil fuel still supplies over four-fifths of global energy needs.
- Environmental goals will stimulate infrastructure spending around the world which will have a net positive effect on the demand for fossil fuel in the short to medium term.
- Benchmark crude oil prices rallied in early January as US sanctions on Iran and Russia intensified, and freezing temperatures swept across large parts of the Northern Hemisphere. Brent crude futures hit a four-month high of $81/bbl by mid-January, up $8/bbl from a month ago.

Oil Market Drivers - Domestic Factors

- The acquisition and operations of 583 wells by Seplat from MPNU.
- The acquisition of over 1,000 wells by Renaissance from Shell will raise the output of crude and increase natural gas feedstock for associated gas,
- The FID done by SNEPCo and its partners may also raise gas output when it comes on stream in 2029
- The fiscal framework for investment in the Nigerian Deep Water was recently defined and approved by the FEC. It is now awaiting passage by the National Assembly.
- The fiscal framework seeks to speed up developments in Nigeria's offshore gas sector, with an estimated 67% of undeveloped assets, by providing tax credits for new investments.
- There are also plans for a gas-production allowance for greenfield developments in on-shore and shallow-water locations that start producing by Jan. 1, 2029.
- We estimate that these incentives and actions can unlock over $10 billion of new investments in Nigeria in the near term.

Drags

- There's currently 40% capacity underutilisation in the LNG space
  - Driven by underinvestment in the upstream segment of Nigeria's Oil and Gas industry.
  - Thus, constraining the amount of feedstock available for the NLNG trains.

- The regulatory and fiscal framework for investing in the deepwater remained undefined till the third quarter of last year. It is hoped that this will improve things as we discussed above.
- Infrastructure investment suboptimization
  - JV partners build individual pipelines on the same corridor where such could have been optimized and scaled for national productive efficiency.
- Insecurity
  - There were few liftings from Bonny in 2024 due to unabating insecurity.
  - Actors in the industry posit that the major reason the IOCs are leaving is insecurity.
- NNPC
  - Duplication of functions and regulatory inconsistency

Addressing High Energy Costs

- There is a need to unlock the potential in the industry using local capabilities, but the obstacles must first be removed.
- Demand-sided reforms need to be complemented by supply-side reforms.
- Beyond unbundling, the NNPC system needs to be taken out of government bureaucracy.
  - NLNG is a good template to use
- The refineries need to be privatised and taken out of NNPCL.
- Naira crude sales to Dangote are unsustainable.
- A crude-refining-for-a-fee scheme for DR appears more rational from an economic point of view.
- NNPC needs to play its regulatory role which includes competition enforcement.
  - A situation where the minimum wage can only afford 70 litres of fuel for the average Nigerian is unjustifiable.

Case Study: Aramco and Saudi Arabia's Vision 2030

- Aramco is the linchpin of the strategy of Muhammed bin Salman, the Crown Prince and de factor ruler, to end his country's reliance on fossil fuel, diversify the economy, and decarbonize its energy production. Aramco solely funds this vision.
- Aramco's IPO in 2019 fetched $30b. On June 2nd 2024, its secondary offer of just 0.7% or so of its government-held stock was oversubscribed in less than 2 hours. They were looking for $13b.

Aramco's Strategy

- Apart from being the Kingdom's piggy bank, Aramco's strategy is to make their energy source "as affordable and sustainable as possible."
- The firm has a three-pronged strategy
  - Doubling down on oil production but in a clean way.
  - Diversifying its hydrocarbon portfolio to wean it from oil dependency
    - Natural gas is the main focus, with production targeted to hit 165bn cubic metres by 2030, up from 110bn in 2022.
    - Petrochemicals is another.
  - Decarbonisation – Aramco is one of the biggest green investors in the energy world.

The End

- Questions!

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