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The government publishes in full the PricewaterhouseCoopers LLP (PwC) audit of the state-owned Nigerian National Petroleum Corp (NNPC). The audit accuses the NNPC of enjoying a “blank check to spend money without limit or control”. President elect Muhammadu Buhari may launch a review of President Goodluck Jonathan (2010- present)’s liberalisation of the electricity sector. Jonathan warns that his ministers may be “persecuted” as part of Buhari’s promised anti-corruption drive.

Government publishes NNPC audit

A published **PricewaterhouseCoopers LLP (PwC)** audit will give president elect **Muhammadu Buhari** a mandate to reform the state-owned **Nigerian National Petroleum Corp (NNPC)** and the wider oil sector on assuming office. The government on 28 April published in full the PwC audit after the incoming Buhari administration had pledged to do so once in power.¹ It covers the period January 2012 to July 2013. The audit accuses the NNPC of enjoying a “blank check to spend money without limit or control”² and spending approximately half of revenue from crude oil sales before it reached the treasury.³ PwC states that the NNPC is unable to properly account for \$1.48 billion.⁴ This figure includes computation errors, unsubstantiated costs and unpaid taxes from both fuel subsidy deals and the transfer of assets between the NNPC and its subsidiaries. Petroleum minister **Diezani Allison-Madueke** had previously instructed the NNPC to refund the \$1.48 billion to the government.⁵ PwC also found a discrepancy of \$2 billion in the total value of crude oil sales.⁶ In addition, PwC raised concerns about the reliability of the NNPC data. The audit concludes that total oil revenue during the period under review was \$69.3 billion not \$67 billion as previously stated, and that the NNPC paid \$50.8 billion to the government rather than \$47 billion. PwC warns that the NNPC’s poor data management prevented an audit in line with international auditing standards.⁷

The PwC report calls on the government to oversee an “urgent” overhaul of its oil sector management.⁸ It warns that high oil prices masked inefficiencies at the NNPC, but that the current low prices will mean that, unless reformed, the NNPC will fail to meet operational and subsidy costs without incurring third party liabilities.

Buhari will look to restructure the NNPC to win the confidence of the international and domestic oil companies. The most recent draft of the long-delayed **Petroleum Industry Bill** includes the restructuring of the NNPC into a commercial **National Oil Company** and a **National Gas Company**.

“There will be two key things that you may see arise from this NNPC audit from an oil and gas perspective. The first is that you will see greater action being taken to privatize that institution in order to better manage Nigeria’s upstream capabilities and bring a greater level of investment to how oil is extracted. We already know that Nigeria officially produces at “100%” capacity, though

1 Leadership, 28 Apr 2015.

2 Bloomberg, 28 Apr 2015.

3 Leadership, 28 Apr 2015.

4 Leadership, 28 Apr 2015.

5 FT, 28 Apr 2015.

6 FT, 28 Apr 2015.

7 FT, 28 Apr 2015.

8 FT, 28 Apr 2015.

*black market activity [bunkering, theft and smuggling] suggests otherwise, so what needs to happen now is that the focus be on extracting more from the **Delta Region** and that can be done with greater investment in new technology that private capital can provide.*

*The other point is that it finally provides the federal government with the impetus it needs to lift the oil subsidy and put that money into harnessing natural gas for its power regeneration programme. At present Nigeria is one of the world's largest perpetrators of gas flaring, burning \$2-3 billion of gas every year. I think there will be a greater focus from the government to begin to develop Nigeria's gas capability and begin to take more seriously Nigeria's power issues."*⁹

Buhari will face opposition to reform of the NNPC. Within the NNPC, there is opposition to its provisions for effective upstream and downstream regulatory agencies, greater policy and appointment powers of the petroleum minister, and emphasis on transparency that the NNPC fears "will clip its wings".¹⁰ There is also external opposition. International oil companies want the fiscal terms of the Petroleum Industry Bill diluted, and the government to remove provisions for higher taxes and royalties.¹¹ The now-opposition **People's Democratic Party (PDP)** holds the governorships in each of Nigeria's oil producing states, which may look to block the incoming **All Progressive's Congress (APC)**-led reforms. Thus, delays to reform efforts are likely.

*"The impact of this NNPC audit on Nigeria's oil and gas sector will not be known until Buhari comes into office, issues a decree and fights it out in the House of Assembly. Buhari is no longer a military man and he is going to find it tough to implement changes so I think there is a reason why he is not making too much noise about the audit. Obviously heads have to roll but how that impacts the makeup of the NNPC and ultimately Nigeria's oil and gas industry is still to be seen."*¹²

Buhari may launch review of electricity sector

Buhari may launch a review of President **Goodluck Jonathan** (2010 – present)'s liberalisation of the electricity sector on assuming office on 29 May.¹³ Reform of the power sector is a priority for his APC party. The APC aims to treble Nigeria's 4,000MW power generation capacity within four years.¹⁴ Despite Jonathan's reform efforts, electricity supply has not improved during his time in office.

*"The obstacles include gas availability and pricing, the ability of the market to sustain itself, vandalism and theft. Financing is a concern. The government's power intervention fund recently stopped the disbursement of funds due to concerns about the distribution companies' ability to repay. They've attributed this to the current tariff regime which needs to be reexamined."*¹⁵

Buhari is reportedly considering appointing a power minister. There is no power portfolio in the current cabinet. Buhari did not include a nomination for power minister on the tentative list of nominees for his cabinet.¹⁶

*"I have heard that Buhari has shortlisted [power minister between 2010 and 2012] professor **Bart Nnaji** to return to his former position. The APC interviewed three candidates for the position in **London (United Kingdom)** a few weeks ago."*¹⁷

It is unclear whether Buhari will reverse Jonathan's liberalisation efforts.

*"The APC is consulting a lot but no one knows what they're going to do with the information. There are obvious challenges, but these need tweaks not [radical reform]. The main challenge is to unlock funding quickly and increase transmission capacity."*¹⁸

9 Source, energy analyst, Nigeria

10 Source, investment banker

11 Source, investment banker

12 Source, energy executive, Lagos

13 The Punch, 18 May 2015.

14 www.emergingmarkets.org

15 Source, power sector consultant, Lagos

16 Source, investigator, Nigeria

17 Source, electricity sector consultant, Nigeria

Jonathan oversaw the unbundling of the **Power Holding Co of Nigeria (PHCN)** into five power generation plants and ten distribution companies in October 2013. Further liberalisation may involve the privatisation of the **Transmission Co of Nigeria**.¹⁹ However, there is popular and political pressure for the APC to improve the management of the electricity sector. Investors are preparing for the APC's solution to be increased government intervention.

*"Most governments want to control the sector; this is true to some extent for the new government."*²⁰

Other investors are concerned that reform of the sector may involve rolling back Jonathan's liberalisation efforts.

"Personally I haven't heard anything coherent about Buhari's power policy. There are rumours that he might reverse the transactions, which would be very messy. From a grid perspective, the solution is simple. This is the privatisation of the transmission network. The optimum model is to hand the transmission sector over to the generation and distribution companies since it's in their interest to make it succeed. Regionalisation of transmission would not be a viable option due to political factors.

Buhari should also move to deregulate the gas sector. The problem is pricing. Looking at historical gas pricing worldwide, international oil companies would rather supply gas for liquefied natural gas than [at subsidised costs] to power producers.

*Buhari needs to have the political will to carry additional reforms through; I don't see reversal but rather a deepening of reforms now that things are opening up."*²¹

As well as having to tackle vested sector ownership interests, progress is made difficult by the intransigence of the **Nigeria Labour Congress (NLC)** and the **National Union of Electricity Employees (NUEE)** on reform. Much depends on whether Buhari is able to address both ownership and labour interests.

*"[Buhari's team] are asking the right questions and making the right moves. Everyone knows what Buhari stands for; how much protection or a shield he'll be able to provide for his team from the powers that be; the people who 'own' Nigeria remains to be seen."*²²

Buhari may continue reforms and pursue a consensus driven process.

*"I don't expect the Buhari administration to change that much regarding the power sector; a lot of progress has been made and it would be ill-advised for them to stall or reverse the reform. Investors' confidence would go right through the window if this were to happen. What I'd expect them to do is scrutinise the sector, remove bottlenecks and identify areas in which quick fixes can be introduced to move us forward."*²³

Jonathan warns about politicised anti-corruption investigations

The Buhari administration continues to pledge an anti-corruption drive, thus raising the risk of contract renegotiations and cancellations following the APC taking office. Jonathan has warned that the process is likely to be politicised and that the APC may "*persecute*" his ministers after Buhari takes office.²⁴ The comment refers to the possibility that anti-corruption investigations will target ministers, officials and financiers of Jonathan's PDP. Jonathan told a church service marking the end of his presidency that senior members of the PDP opposed his decision to concede the March presidential election.²⁵

18 Source, senior banking executive, Lagos

19 Source, economist, Lagos

20 Source, international financier, Nigeria

21 Source, senior power and infrastructure banking, Nigeria

22 Source, electricity sector executive, Nigeria

23 Source, power sector consultant, Lagos

24 This Day, 11 May 2015.

25 This Day, 11 May 2015.

Buhari told an APC rally in **Kaduna** in March that he will introduce a pardon for individuals accused of corruption between 1999 and his inauguration.²⁶ This would cover PDP officials and supporters. An amnesty may allow Buhari to lead an anti-corruption drive without prosecuting historical allegations of corruptions.²⁷ This would reduce the risk of allegations that the APC is embarking on a political witch hunt. Any significant anti-corruption drive will raise the risk of contract renegotiation and cancellation in the oil and gas, infrastructure and electricity sectors.

Implications

Despite the publication of the PWC audit, reform of the oil and gas sector will be slow. The sector will continue to underperform due to dilapidated infrastructure, legislative delays and insecurity. Low oil prices will force companies to reduce capital expenditure increasing the risk of international oil companies suspending or cancelling project investments, which could result in declining production.

Delays to liberalisation efforts in the electricity sector are common and will continue. Improvements will be slow. The industry as a whole still serves the interests of producer stakeholders ahead of consumer and industrial customers.

Any significant anti-corruption drive will raise the risk of contract renegotiation and cancellation in the oil and gas, infrastructure and electricity sectors. Jonathan's warning serves as a reminder of the risks of doing business with politically exposed individuals in Nigeria.

²⁶ The News Nigeria, 12 Mar 2015.

²⁷ Source, business analyst, Lagos