FEDERAL MINISTRY OF FINANCE

Office of the Honourable Minister of Finance and Coordinating Minister of the Economy

Ahmadu Bello Way,
Central Business District,
P.M.B. 14 Garki, Abuja
Nigeria.

OHMF/IG/OG/2024/I

23rd April 2024

IMPLEMENTATION GUIDELINES FOR THE THE OIL AND GAS COMPANIES (TAX INCENTIVES, EXEMPTION, REMISSION, ETC.) ORDER, 2024.

1.0 Introduction

In line with His Excellency, President Bola Ahmed Tinubu's commitment to improving the investment climate in Nigeria, harnessing the nation's resources, and diversifying the economy for the benefit of all Nigerians, the President has initiated the amendment of primary legislation to introduce fiscal incentives for oil and gas projects. Recognizing the urgency to accelerate investments, the President issued the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024. This order grants several incentives including:

a. Gas tax credit and Gas tax allowances for Non-Associated Gas greenfield developments in onshore and shallow water locations, where the hydrocarbon liquids fall between 0-100 barrels per million standard cubic feet of gas.

b. A 25 percent gas utilization investment allowance applicable to qualifying expenditure on plant and equipment incurred by a gas utilization company in respect of any new and ongoing project in the midstream oil and gas industry.

(Collectively referred to as the **Fiscal Incentives**)

2.0 Legal Framework

These guidelines are issued pursuant to Paragraph 12 of the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024.

3.0 Application

These guidelines shall apply to:

a. Companies with licenses or leases producing Non-Associated Gas from greenfield onshore and shallow water locations.

b. Midstream gas companies undertaking a new or ongoing gas utilization project.

4.0 Scope

The guidelines include the following:

a. Federal Inland Revenue Service Guideline on the applicability of Tax Credits and Allowances for Non-Associated Gas Greenfield Development.

b. Federal Inland Revenue Service Guideline on the applicability of the Midstream Capital and Gas Utilization Allowance.

c. Nigerian Upstream Petroleum Regulatory Commission Guideline on Hydrocarbon Liquids Content in a NAG Field.

5.0 Sunset

a. The Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024 shall cease upon the formal introduction of the Fiscal Incentives through legislation.

b. The Gas Tax Credits introduced under the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024 shall cease where first gas production is not achieved by 1st January 2029 (the **Sunset Date**).

c. Without prejudice to the generality of the foregoing, where an operator is unable to achieve gas production as a result of the occurrence or subsistence of a Force Majeure Event, the Sunset Date shall in relation to that Operator be entitled to apply to the Nigerian Upstream Petroleum Regulatory Commission (**NUPRC**) for extension of the Sunset Date.

d. For the purpose of these Guidelines, Force Majeure shall mean any event or circumstance or combination of events or circumstances that is beyond the reasonable control of an operator and that materially and adversely affects the ability of that operator to achieve gas production; but only to the extent that:

   (i) such circumstance, event or condition, despite the exercise of diligence, cannot be prevented, avoided or overcome by the affected operator; and

   (ii) The affected operator has taken all reasonable precautions, due care and measures to prevent, avoid or overcome the effect of such circumstance, event or condition on its ability to achieve gas production and to mitigate its consequences.

e. Force Majeure Events shall include but are not limited to any act of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, or acts of terrorism, Acts of God, epidemics, plagues lightning, fire, earthquake, storm, cyclone, typhoon, tornado or other natural calamity; strikes, go-slows or works to rule; radioactive contamination, ionizing radiation, explosion or chemical contamination (other than resulting from an act of war or the act or negligence of the affected Operator), but only to the extent that an event satisfies the requirements above. Any event caused by, or connected with, or resulting from

the affected Operator's (i) negligent or intentional acts, errors or omissions, (ii) failure to comply with any laws or (iii) breach of, or default under, this guideline or any applicable law; or (iii) failure to make payments to contractors in accordance with the Operator's obligation under any applicable rule or law shall not constitute a Force Majeure Event.

Wale Edun, OFR
Honourable Minister of Finance & Coordinating Minister of the Economy

FEDERAL INLAND REVENUE SERVICE
15, SOKODE CRESCENT, WUSE ZONE 5, P.M.B 33, GARKI, ABUJA, NIGERIA

INFORMATION CIRCULAR

NO:2024/02 PUBLICATION DATE: 19th APRIL, 2024

Subject: **GUIDELINE ON THE APPLICABILITY OF THE MIDSTREAM CAPITAL AND GAS UTILIZATION INVESTMENT ALLOWANCE**

Background

This guideline is issued for the information and guidance of relevant taxpayers, tax practitioners and the general public on the implementation of the midstream capital and gas utilization investment allowance.

1.0 Introduction

In a bid to unlock new investments in the midstream sector of the oil and gas industry, the President of the Federal Republic of Nigeria, signed an Executive Order No 40, Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024.

2.0 Scope of the Guideline

The scope of this guideline covers gas utilization investment allowance to be granted on qualifying capital expenditure incurred on plant and equipment by midstream gas companies in respect of any new and ongoing project in the midstream oil and gas industry engaged in processing and transportation of natural gas as regulated by the Nigerian Midstream Downstream Petroleum Regulatory Authority (NMDPRA).

3.0 Legal Framework

This guideline is issued pursuant to Part II of the Oil and Gas Companies (Tax Incentives, Exemptions, Remission, Etc) Order 2024 [S.1 No.1 0f 2024] dated 28th February 2024; Sections 23 (2) and 89 of Companies Income Tax Act (CITA) as amended.

4.0 Conditions for Eligibility for Gas Utilisation Investment Allowance (GUIA)

To be eligible for the GUIA, the company must have incurred qualifying capital expenditure on plants and equipment in one or more of the following midstream gas operations:

4.1 Eligible Midstream Gas Operations

1) Transportation of natural gas to gas conditioning, and processing plants;
2) Transportation of natural gas from gas conditioning and processing plants to gas-based industries, and other end-use customers, specifically not exceeding exit points connecting gas distribution pipelines and networks;
3) Gas processing and conditioning plants;
4) Gas Bulk storage infrastructures deliberately installed not for sale but holding stock of plant condensates, liquefied petroleum gas (LPG) or liquefied natural gas (LNG).

4.2 Basis for Eligibility

Companies engaged in the operations listed above will be required to possess the relevant licences as may be issued by NMDPRA.

4.3 Implication of Section 39 of CITA on GUIA

A company shall only be granted the gas utilization investment allowance upon the expiration of the tax-free period granted under section 39(1) of the Companies Income Tax Act, provided that a company that has enjoyed the 25% GUIA will not be entitled to any other investment allowance under Section 39 of CITA.

4.4 Qualifying Plant and Equipment

For the purpose of this guideline, the qualifying plant and equipment refers to tangible asset and other components that make up a plant or equipment used for gas processing and transportation in midstream gas operations of which its useful life is beyond a period of one year.

To qualify for GUIA, the following conditions are required:

- The cost of the qualifying plant and equipment must have been incurred by the company;
- The cost must have been incurred from the commencement date of this incentive order;
- Proof of ownership of qualifying plant and equipment; and
- Evidence of direct use of plant and equipment for gas processing and transportation in midstream gas operations.

5.0 Submission of Information by Eligible Company

All eligible companies upon filing their returns, shall provide a certified copy of relevant information submitted to NMDPRA on all new and ongoing projects.

Thereafter, FIRS shall process claims for allowances on qualifying plants and equipment and grant GUIA to eligible applicants.

6.0 Rate of Gas Utilization Investment Allowance.

The gas utilization investment allowance to be granted to eligible companies shall be 25% of the actual expenditure incurred on plant and equipment.

7.0 Exemptions

The gas utilization investment allowance will not apply, where any of the following occur:

i. The company sells or transfers the plant and equipment to another company, that is not engaged in the same or related business within five years of incurring the expenditure.
ii. Within five years of incurring the expenditure, there is an appropriation of the plant and equipment for purposes other than gas utilisation.
iii. The cost incurred on the plant and equipment is not a bonafide business transaction or is an artificial or fictitious transaction.
iv. The company is an end - product user of gas as feedstock, energy source and related purposes.

8.0 Disclosure Requirement

A company that has claimed the GUIA on asset that is subsequently transferred or sold shall provide information on the sale, transfer or any other dealings with the asset to the FIRS within three months of the transaction.

The purchaser or transferee shall also have the duty to provide information as may be requested by the FIRS on the sale, transfer or any dealing with the asset.

9.0 Non-Interference with Capital Allowance

The value of any asset on which capital allowance is claimable by a company under the Companies Income Tax Act, shall not be reduced by the gas utilization investment allowance available to be claimed by a company.

The applicable capital allowance under the Companies Income Tax Act shall continue to apply to the eligible company without prejudice to any other allowable deductions, allowances and incentives available to the company under the Companies Income Tax Act, and any other applicable legislation.

10.0 Illustrations

Illustration 1

Ricardo Gas Investment Limited was licenced to engage in midstream Gas Utilization activities. The company incurred qualifying capital expenditure of US$10,000,000.00 (inclusive of US$6,000,000.00 for qualifying plant and equipment on gas utilization) on 1st April 2024. The Capital allowance claimable for the year is US$2,000,000.00 while the assessable profit for the year is US$5,000,000.00. Compute:

(1) Gas Utilisation Investment Allowance (GUIA) claimable.
(2) Companies Income Tax liability for 2025 year of assessment.

Suggested Solution to illustration 1:

Ricardo Gas Investment Limited

(1) Computation of Gas Utilisation Investment Allowance (GUIA)

• Total Qualifying Expenditure for the year	=	US$10,000,000
• Qualifying Expenditure on plant & Equipment	=	US$6,000,000
• GUIA rate	=	25%

Gas Utilisation Investment Allowance claimable = 25% x US$6,000,000
= **US$1,500,000**

(2) Computation Companies Income Tax For 2025 Year of Assessment

	US$	US$
Assessable Profit		5,000,000
Less: Capital Allowance	2,000,000	
Gas Utilisation Investment Allowance	1,500,000	
Total Allowance claimable	3,500,000	3,500,000
Total Profit		**1,500,000**
Companies Income Tax @ 30%		**450,000**

Illustration 2

Topnotch Gas Processing Limited (TGPL) commenced the construction of a Gas Processing Plant in Port Harcourt in January 2021. The contract for the gas plant was awarded at a cost of US$100,000,00 with a completion period of three (3) years. Unfortunately, the Contractor engaged to construct the plant abandoned the project after executing 70% of the job in March 2023 due to funding issues. The company however secured a loan from a consortium of banks based on the Gas Utilization Incentives introduced by the Federal Government in February, 2024 to complete the contract.

Consequently, the Contractor returned to Site in April 2024 to complete the outstanding 30% of the plant. Assuming that the contract was eventually completed on 30th November 2024. Calculate the Gas Utilization Investment Allowance claimable by TGPL on the project if actual payments to the Contractor were made as follows:

Payment date	Amount Paid (US$)
1st July 2021	30,000,000
15th March 2023	20,000,000
12th March 2024	20,000,000
30th September 2024	20,000,000
1st January, 2025	10,000,000

Suggested Solution to illustration 2:

Topnotch Gas Processing Limited
Computation of Gas Utilisation Investment Allowance (GUIA)

Total Qualifying Expenditure on Plant and Equipment US$100,000,000
Qualifying Exp, on Plant & Equip. liable to GUIA (30% x 100m) US$30,000,000
GUIA Rate : 25%
GUIA claimable on the Project = 25% x US$30,000,000
= US$7,500,000

NOTE:

(1) What is relevant in the determination of the Qualifying Expenditure on Plant and Machinery for the purpose of GUIA is the time the expenditure was incurred or asset purchased and not when payment was made.

(2) All Qualifying Capital Expenditures incurred on Plant and Equipment on a Gas Utilization Project prior to the effective date of the GUIA incentive do not qualify for the Allowance.

(3) Payments made from inception to 12th March 2024 were for expenditures incurred prior to the commencement of the incentive. The payment of 2nd January 2025 is for expenditure incurred in 2024 after the commencement date of the incentive.

11.0 Commencement Date

The commencement date of this guidance is 28th of February 2024.

Note: An eligible company shall only claim the gas utilization investment allowance upon the expiration of the tax-free period granted under section 39(1) of the Companies Income Tax Act.

12.0 Definition of terms:

"Midstream Gas Operations"

Means activities downstream of the measurement points of petroleum mining leases, whether or not related to the petroleum mining lease, with respect to the construction and operation of natural gas transport or transmission pipelines, including the related compressor stations, construction and operations of facilities to compress, transport and deliver compressed natural gas (CNG); construction and operations of gas processing facilities and central processing facilities, producing ethane, propane, butane and natural gas liquids and marketable natural gas; construction and operation of underground or above ground facilities for the storage of natural gas, ethane extraction plants, construction and operation of gas to liquids (GTL) plants, petrochemical, construction and operation of LNG plants, and related LNG terminals as well as storage and transport of LNG, acquisition, operation or chartering of LNG tankers for coastal and marine transportation, purchase and sale, trading, bartering, aggregating and marketing of natural gas transported by pipelines, compressed natural gas, LNG, methane, ethane, propane, butane, natural gas liquids and liquids from GTL plants with respect to wholesale customers and gas distributors and related administration and overhead ;

"New project"

means gas project that was initiated and executed after the commencement date of the Executive Order 40;

"On-going project"

means gas project currently under construction or in progress, prior to the commencement date of the Executive Order 40.

FEDERAL INLAND REVENUE SERVICE
15, SOKODE CRESCENT, WUSE ZONE 5, P.M.B 33, GARKI, ABUJA, NIGERIA

INFORMATION CIRCULAR

NO:2024/01 PUBLICATION DATE: 19th APRIL, 2024

Subject: **GUIDELINE ON THE APPLICABILITY OF THE GAS TAX CREDITS AND ALLOWANCES FOR NON-ASSOCIATED GAS GREENFIELD DEVELOPMENT**

Background

This guideline is issued for the information and guidance of relevant taxpayers, tax practitioners and the general public on the implementation of the Gas Tax Credits and Allowances for Non-Associated Gas (NAG) Greenfield Development in onshore and shallow water locations.

1.0 Introduction

In a bid to attract new investments for Non-associated Gas Greenfield Development in onshore and shallow waters, the President of the Federal Republic of Nigeria signed an Executive Order (No 40) titled "Oil and Gas Companies (Tax incentives, Exemption, Remission, etc.) Order, 2024". Consequently, this guidance is issued in order to clarify the implementation of the incentive regime.

2.0 Scope of the Guidelines

This guidance applies to companies holding licences or leases for greenfield development of Non-Associated Gas (NAG) in onshore and shallow water locations.

3.0 Legal Framework

The guideline is issued pursuant to the provisions of:

a. Executive Order No 40 on Oil and Gas Companies (Tax incentives, Exemption, Remission, etc.) Order, 2024 (Order 40);
b. Sections 23 (2) and 89 of Companies Income Tax Act, Cap C21, LFN 2004, as amended (CITA).

4.0 Definition of terms:

In this guideline:

"**Associated Gas Framework Agreement**" is as defined by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).

"**First Gas Production Date**" is the date certified by the NUPRC as the first gas production date.

"**Fiscal Gas Price**" means the price used for royalty as determined by the NUPRC.

"**Gas Tax Credit (GTC)**" means the amount of tax credit granted to an eligible company pursuant to paragraph 1(2), of part 1 of Order 40.

"**Gas Tax Credit Surplus (GTCS)**" means the sum by which the Gas Tax Credit granted to an eligible company exceeds the amount of Companies Income Tax due from that company in an accounting period.

"**Gas Tax Allowance (GTA)**" means the amount of allowance granted to an eligible company pursuant to paragraph 3 of part 1 of Order 40.

"**Greenfield Development**" refers to all undeveloped NAG fields in existing licenses or leases granted pursuant to licensing bid-rounds conducted by NUPRC with first gas production from the commencement date of this incentive.

"**Hydrocarbon Liquids (HCL)**" is as defined by the NUPRC.

"**Onshore and Shallow Waters**" is as defined under Section 318 of the Petroleum Industry Act (PIA).

5.0 Eligibility for Gas Tax Credit (GTC) and Gas Tax Allowance (GTA)

Only a company granted licences or leases for greenfield development of non-associated gas in onshore and shallow water locations is eligible for the GTC or GTA.

Note that:

a. a company is entitled to only Gas Tax Credits (GTC) if it achieved first gas production on or before 1st January, 2029;
b. a company that achieved first gas production after 1st January, 2029 is entitled to only Gas Tax Allowance (GTA).

6.0 Period of Carryover

A Gas Tax Credit Surplus arising in a year can be carried forward for a maximum period of three (3) years. Thereafter, any unutilised Gas Tax Credit Surplus (i.e. after three (3) years) shall lapse.

7.0 Computation of Gas Tax Credit and Gas Tax Allowance

TABLE 1 - DETERMINATION OF GAS TAX CREDIT AND GAS TAX ALLOWANCE						
S/N	Description			Hydrocarbon Liquids Content per MMSCF		
				0 - 30 MMSCF	Above 30 - 100 MMSCF	Above 100 MMSCF
1	Gas Tax Credit	Subject to maximum of 10 years	Lower of: (a)	US$1 per MSCF	US$0.5 per MSCF	Revert to exisiting legislations (PPTA, PIA, etc)
			(b)	30% of Fiscal Gas Price	30% of Fiscal Gas Price	Revert to exisiting legislations (PPTA, PIA, etc)
2	Gas Tax Allowance		Lower of: (a)	US$0.5 per MSCF	US$0.5 per MSCF	Revert to exisiting legislations (PPTA, PIA, etc)
			(b)	30% of Fiscal Gas Price	30% of Fiscal Gas Price	Revert to exisiting legislations (PPTA, PIA, etc)

Note: MMSCF = Million Standard Cubic Feet
MSCF = Thousand Standard Cubic Feet

8.0 Illustrations:

Illustration A

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1st April 2024. The NAG field contains Hydrocarbon liquids (HCL) of 25 barrels per MMSCF of gas.

Assuming the Company produced a total of 100,000,000 MSCF for the year, with a fiscal gas price of $3.00 per MSCF, the Gas Tax Credit claimable for 2024 accounting period is computed as follows:

Suggested Solution to illustration A:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00

Gas Tax Credit (GTC) Rate:
Lower of:

(a) US$1.00 and;
(b) 30% of US$3.00 = US$0.9

Applicable GTC rate = US$0.9

Gas Tax Credit Claimable = Production per MSCF x Gas Tax Credit Rate
= (100,000,000/1000) x US$0.9
= 100,000 X US$0.9
= **US$90,000**

Illustration B

As in illustration (A) above, but the Hydrocarbon Liquid Content is 70 barrels per million SCF. The Gas Tax Credit claimable is computed thus:

Suggested Solution to Illustration B:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00
Gas Tax Credit (GTC) Rate:

Lower of:

(a) US$0.5 and;
(b) 30% of US$3.00 = US$0.9

Applicable GTC rate = US$0.5

Gas Tax Credit Claimable = Production per MSCF x Gas Tax Credit Rate
= (100,000,000/1000) x US$0.5
= 100,000 X US$0.5
= **US$50,000**

Illustration C

As in illustration (A) above, but the Hydrocarbon Liquid Content is 110 barrels per million SCF. The Gas Tax Credit claimable is computed as follows:

Suggested Solution to Illustration C:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00
Gas Tax Credit (GTC) Rate: Not applicable
Company to revert to existing legislation

Illustration D

As in illustration (A) above, but the company is in its 11th year of production. The Gas Tax Allowance claimable is computed as follows:

Suggested Solution to illustration D:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 20X4 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00
Gas Tax Allowance (GTA) Rate:

Lower of:
(a) US$0.5 and;
(b) 30% of US$3.00 = US$0.9

Applicable GTA rate = US$0.5

Gas Tax Allowance Claimable = Production per MSCF x Gas Tax Allowance Rate
= (100,000,000/1000) x US$0.5
= 100,000 X US$0.5
= **US$50,000**

Illustration E

XYZ Energies Limited operates a NAG field and commences its first Gas production on 1st March 2035 (11 years after Order 40 came into force). The NAG field contains HCL of 28 barrels per MMSCF of gas. Assuming the Company produces a total of 200,000,000 MSCF in its first year of production and the fiscal gas price is $5.00 per MSCF.

Compute the Gas Tax Credit or Gas Tax Allowance as may be applicable, for the relevant accounting period.

Suggested Solution to illustration E:

XYZ Energies Limited:
Computation of Gas Tax Allowance claimable in the relevant accounting period.

Volume of gas produced = 200,000,000 MSCF
Price per MSCF= US$5.00
Gas Tax Allowance (GTA) Rate:

Lower of:

(a) US$0.5 and;
(b) 30% of US$5.00 = US$1.5

Applicable GTA rate = US$0.5

Gas Tax Allowance Claimable = Production per MSCF x Gas Tax Allowance Rate
= (200,000,000/1000) x US$0.5
= 200,000 X US$0.5
= **US$100,000**

Illustration F

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1st April 2024. The NAG field contains HCL of 25 barrels per million SCF of gas. Assuming the Company produced a total of 100,000,000 MSCF for the year, with a fiscal gas price of $3.00 per MSCF.

Compute tax due after giving effect to the Gas Tax Credit claimable for 2024 accounting period assuming total profit of the company is US$500,000

Suggested Solution to illustration F:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00

Gas Tax Credit (GTC) Rate:
Lower of:
(a) US$1.00 and;
(b) 30% of US$3.00 = US$0.9

Applicable GTC rate = US$0.9

Gas Tax Credit Claimable = Production per MSCF x Gas Tax Credit Rate
= (100,000,000/1000) x US$0.9
= 100,000 X US$0.9
= **US$90,000**

Computation of Companies Income Tax due to FIRS

		US$
Total profit	=	500,000
CIT @ 30%	=	150,000
Less: Gas Tax Credit claimable		90,000
CIT due	=	**60,000**

Illustration G

As in illustration F above but total profit is US$200,000

Suggested Solution to illustration G:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF
Price per MSCF = US$3.00
Gas Tax Credit (GTC) Rate:
Lower of:
(a) US$1.00 and;
(b) 30% of US$3.00 = US$0.9
Applicable GTC rate = US$0.9

Gas Tax Credit Claimable = Production per MSCF x Gas Tax Credit Rate
= (100,000,000/1000) x US$0.9
= 100,000 X US$0.9
= **US$90,000**

Computation of Companies Income Tax due to FIRS

			US$
Total profit	=		200,000
CIT @ 30%	=		60,000
Less: Gas Tax Credit claimable		90,000	
Gas Tax Credit claimed		60,000	60,000
Gas Tax Credit surplus c/f		30,000	

CIT due	=	**Nil**
(Subject to minimum tax rules)		

Illustration H

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1st April 2024. The NAG field contains HCL of 25 barrels per million SCF of gas and the Company produced a total of 100,000,000 MSCF for the year, with a fiscal gas price of $3.00 per MSCF. Compute tax due if total profit for 2028 accounting period is USD$200,000 and the Gas Tax Credit claimable is US$90,000 (out of which US$50,000 has exceeded three years)

Suggested Solution to illustration H:

ABC Energies Limited:
Computation of Gas Tax Credit claimable in 2028 accounting period.

Gas Tax Credit Claimable = US$90,000

Note: The US$90,000 Gas Tax Credit (GTC) claimable is inclusive of US$50,000, unutilised GTC, which has been carried forward for more than three years.

Computation of Companies Income Tax due to FIRS

			US$
Total profit	=		200,000
CIT @ 30%	=		60,000
Gas Tax Credit claimable		90,000	
Less lapsed Gas Tax Credit		50,000	
Gas Tax Credit claimable		40,000	40,000
CIT due	=		**20,000**

Illustration I

PYT Energies Limited operates a NAG field and commences its first Gas production 11 years after the commencement date of 28th February, 2024. The company's Gas Tax Allowance claimable and the Assessable profit are US$80,000 and US$200,000 respectively. Compute the Companies Income Tax due.

Suggested Solution to illustration I:

Computation of Companies Income Tax due to FIRS

		US$
Assessable profit	=	200,000
Less: Gas Tax Allowance	=	80,000

Total Profit	=	120,000
CIT @ 30%	=	36,000

9.0 Filing of Separate Tax Computation

Companies who are eligible for this incentive are not entitled to claim the Associated Gas Framework Agreement (AGFA) incentive for the same greenfield NAG project, hence, such company is required to file separate tax computations for the greenfield NAG project.

10.0 Restriction:

Gas Tax Credit (GTC) can only be claimed by a company that achieved first gas production on or before 1st January 2029 and for a maximum period of 10 years, provided that the hydrocarbon liquid content does not exceed 100 barrels per Million SCF.

Similarly, the Gas Tax Allowance (GTA) can only be claimed by a company that achieved first commercial gas production after 1st January 2029, provided that the hydrocarbon liquid content does not exceed 100 barrels per Million SCF.

11.0 Transition from Gas Tax Credit (GTC) to Gas Tax Allowance (GTA):

Companies granted Gas Tax Credit in Greenfield development may be eligible to Gas Tax Allowance after the expiration of 10 years, subject to the restriction provided in **paragraph 10.0** above.

12.0 Commencement Date:

The commencement date of this Guidance is 28th day of February, 2024

13.0 Amendment or Revision of the Guidance

The Service may, at any time, withdraw or replace this Guidance or publish an amended or updated version.

14.0 Enquiries

Any request for further information or clarifications on this Guidance should be directed to the:

Executive Chairman,
Federal Inland Revenue Service,
Revenue House,
20, Sokode Crescent,
Wuse Zone 5, Abuja.

Or

Director, Tax Policy and Advisory Department,
Federal Inland Revenue Service,
Revenue House Annex 4,

26, Sokode Crescent, Wuse Zone 5, Abuja.

Or

E-mail-tpld@firs.gov.ng

GUIDELINES FOR THE DETERMINATION & MEASUREMENT OF HYDROCARBON LIQUIDS CONTENT IN NON-ASSOCIATED GAS (NAG) FIELDS

ISSUED BY

NIGERIAN UPSTREAM PETROLEUM REGULATORY COMMISSION

2024

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

Contents

1. INTRODUCTION 3
1.1. Background 3
1.2. Purpose and Scope 3
1.3. Application 3
1.4. Definition of Terms 3
2. NON-ASSOCIATED GAS (NAG) ASSET HOLDER OBLIGATIONS 6
3. DETERMINATION OF HYDROCARBON LIQUIDS 6
4. MEASUREMENT TECHNIQUES & STANDARDS FOR THE DETERMINATION OF HYDRCARBON LIQUIDS FROM A NAG FIELD 6
4.1. Measurement Methods 6
4.2. Determination of Measuring Points for NGL Determination 7
4.3. Gas Composition Determination 7
4.4. Measurement of Natural Gas Liquids (NGLs) 7
4.5. Other Measurement Methods 8
4.6. Metering Standards & Specifications 8
5. REPORTING REQUIREMENTS 9
APPENDIX 10

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

1. INTRODUCTION

1.1. Background

The level of conditioning and processing of raw natural gas depends upon multiple factors including natural gas inlet compositions, product and transport specifications, and subsequent further processing requirements. For example, if ethane market is available, a configuration requiring cryogenic temperatures for Natural Gas Liquids (NGL) extraction is implemented. However, if the desire is for the bulk liquids, simple Joule Thompson (JT) valve expansion may suffice. These situations would determine what measurement systems are put in place to meet the service solutions need.

1.2. Purpose and Scope

The purpose of these Guidelines is to provide the implementation framework for the Presidential Fiscal Incentives Directives No. 40 of 2024 (Presidential Directives No. 40) for unlocking investment in the gas sector through accurate determination of hydrocarbon liquids content from a Non-Associated Gas (NAG) field or reservoir.

1.3. Application

These Guidelines shall apply to all licensees and lessees producing NAG from green non-associated gas fields.

1.4. Definition of Terms

(i) Dry Marketable Natural Gas
This is the dry sales gas comprising mainly of methane (C1), but sometimes ethane (C2) and may also contain C3 and C4. This is measured in Standard Cubic Feet (SCF).

(ii) Field Condensates
Condensate is a mixture of liquid hydrocarbons that are recovered as a byproduct of natural gas production. Field condensates specifically refer to the condensates that are produced in the field, typically at the wellhead or at initial production separation facilities and are often rich in light hydrocarbons such as pentane and hexane.

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

(iii) Gas Conditioning or Treatment plant
It refers to a facility where raw natural gas undergoes various treatments, including dehydration, sweetening (removal of hydrogen sulfide), and compression, to meet pipeline specifications or other end-user requirements and further processing.

(iv) Gas Processing plant
This is a facility where fractionation of the of the NGLs take place. Following conditioning, the processing plant splits the natural gas liquids into their constituent components like ethane, propane, butane, pentanes, pentane+(condensates). The processing plant may also refer to all processes covering the functions of NGL extraction and fractionation.

(v) Hydrocarbon Liquids Content (HLC)
This refers to the hydrocarbon liquids from the split or drop-outs of raw wet non-associated natural gas (NAG). The lighter end contains the dry marketable or sales natural gas, and the heavier ends are separated and captured as natural gas liquids (NGLs) and condensates. This might include ethane; propane & butane (LPGs), pentanes, and pentane plus (C5 and C5+) and shall be measured in barrels (bbl.) It includes both field condensates as well as plant condensates and natural gas liquids.

(vi) Inventory of all NAG fields or reservoirs
This means the list of all discovered NAG fields and or reservoirs in the asset area including their dates of discovery, commitment and production status, in-place volumes, cumulative production, and any current activities (if any) on the asset.

(vii) Natural Gas Liquids (NGL)
This refers to the liquid hydrocarbons that are extracted or produced along with raw natural gas. NGLs typically include ethane, propane, butane, isobutane, pentane, pentane-plus. These liquids are separated from raw natural gas during processing where the gas phase containing mainly methane is removed from the raw gas stream leaving the natural gas liquids.

(viii) NGL Extraction Plant
This is the plant where the raw natural gas after pretreatment and conditioning is separated into the sales dry gas and natural gas liquids.

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

The technology selected for the NGL extraction would depend upon the operating objective of the facility and the inlet gas composition and might include technologies such as JT Valve (Valve Expansion), Mechanical Refrigeration or Turboexpander.

(ix) Non- Associated Gas Field
This is a field where the reservoirs hold predominantly natural gas with no oil. In some cases, the reservoirs may also hold such natural gas with associated condensates or natural gas liquids in the case of retrograde condensate fields.

(x) Plant Condensates
Any gas condensate produced from a gas conditioning plant or gas processing plant downstream of the production separator.

(xi) Production Separator
This is a piece of equipment downstream the wellhead, designed to separate the mixture of fluids produced from the well into its various free components. For a NAG well this will be used to separate the raw natural gas fluids produced from the well into condensates, gas, and water.

(xii) Raw Natural gas
This is natural gas as it is extracted from underground reservoirs before undergoing any processing or treatment. Raw natural gas typically contains methane, along with varying amounts of other hydrocarbons, impurities such as sulfur compounds (e.g., hydrogen sulfide), and water vapor. Raw natural gas could be lean and dry (with little if any heavy ends) or rich and wet (with heavy ends) depending on the reservoir type.

(xiii) Separation facility
This shall mean a gas production separator, gas treatment, conditioning, or processing facility where the wet gas is separated into hydrocarbon liquids and dry natural gas.

(xiv) Wet Gas
This is raw natural gas containing significant amounts of the heavier ends i.e. natural gas liquids (NGLs) or condensates on surface conditions produced from the non-associated gas well. Wet gas differs from dry gas, which primarily consists of methane with minimal amounts of

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

heavier hydrocarbons or impurities. Wet gas requires additional processing to separate and recover the liquids for further use or sale.

2. NON-ASSOCIATED GAS (NAG) ASSET HOLDER OBLIGATIONS

A licensee or lessee producing NAG shall –

(i) within 6 months of the coming into effect of these Guidelines, provide the Commission with an inventory of all NAG fields or reservoirs in its license or lease area.

(ii) within 18 months of the coming into effect of these Guidelines conduct or validate **assay** of the natural gas from its NAG fields or reservoirs; and

(iii) if applicable, carryout a baseline audit of any receiving facility where gas from a green NAG field or reservoir is to be produced into for treatment, conditioning, or processing to establish the reference hydrocarbon liquids yields from the facility, prior to the introduction of the new NAG volumes to a facility.

3. DETERMINATION OF HYDROCARBON LIQUIDS

For the purpose of these guidelines, Hydrocarbon Liquids Content (HLC) shall be determined as the aggregate volumes of Natural Gas Liquids and condensates from:

(i) Field condensates and hydrocarbon liquids drop out at the production field separator and or compression facility upstream of the gas conditioning or processing plant.

(ii) Natural gas liquids (NGLs) consisting of ethane, propane, butane, pentane, and plant condensates derived downstream of a conditioning or processing facility as products of separation or fractionation therefrom. (See Appendix Fig.1)

4. MEASUREMENT TECHNIQUES & STANDARDS FOR THE DETERMINATION OF HYDRCARBON LIQUIDS FROM A NAG FIELD

4.1.Measurement Methods

For the purposes of these incentives, the measurement of all natural gas liquids shall be by dynamic method of measurement except where static method of measurement is approved by the Commission.

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

4.2.Determination of Measuring Points for NGL

(i) For the purposes of these incentives, the Commission shall determine the measurement points for natural gas liquids as follows:
   (a) inlet of a separation facility (which may include, a production separator, gas treatment, conditioning, or processing facilities); downstream of the well head; and
   (b) downstream and the exit of a separation facility (which may include, a production separator, gas treatment, conditioning, or processing facilities); for the determination of the natural gas liquids (NGLs) and the dry marketable natural gas(C1+).

(ii) Provided that the Commission may at its discretion determine any other locations that the measurements may be done

4.3.Gas Composition Determination

(i) To benefit from these incentives, the licensee or lessee shall be required to carry out a compositional gas analysis at a point inlet of a gas separation facility such as a gas treatment, conditioning, or processing plant and at the exit of a gas treatment, conditioning, or processing plant.

(ii) The methods, techniques and procedure for the determination of the composition of natural gas shall be as prescribed by the Commission from time to time and shall include as a minimum:
   (a) BTU content
   (b) The composition of the gas includes methane, ethane, propane, butane, pentane, pentane plus and natural gas liquids.
   (c) The estimates of the amounts in volumes of each of the components of natural gas may be derived from processing in a gas treatment, conditioning, or processing plant.
   (d) The composition of impurities in the gas, including carbon dioxide, nitrogen oxide, hydrogen sulfide, inert gases, water, and any other substances in the gas.

4.4.Measurement of Natural Gas Liquids (NGLs)

(i) The Natural Gas Liquids (NGLs) or hydrocarbon liquids content of natural gas from all green NAG fields or reservoirs shall be measured post separation.

(ii) For the purposes of sub-paragraph i above, production separators shall be installed for wet gas assets to capture the field condensates and the following shall be measured with separate measurement meters;
   (a) the marketable natural gas (C1+) also called the dry sales gas stream and may constitute methane, ethane and sometimes propane and butanes; and

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

(b) the natural gas liquids (NGLs) constituting mainly of pentanes and pentane plus and plant condensates.
(c) the field condensates drop-out from a production separator where such separators are installed.

(iii) Dry marketable natural gas stream shall be measured using a meter with a gas chromatograph for compositional analysis.

(iv) The NGLs shall be measured in a custody transfer unit configuration using meters which may include Coriolis meter and meet the Commission's measurement requirements.

4.5.Other Measurement Methods

The Commission may, where applicable and for the purposes of these incentives, approve the determination of NGLs by a back-up measurement method of fiscalisation in a tank.

4.6.Metering Standards & Specifications

(i) For the purposes of these incentives, the measurement and metering systems used shall comply with the acceptable industry standards such as:

(a) Guidelines for the Determination of Quantity & Quality of Petroleum & Petroleum Products in Nigeria issued by the Commission.
(b) API Manual of Petroleum Measurement Standards, Chapter 8 – Sampling
(c) API Manual of Petroleum Measurement Standards, Chapter 9 – Density Determination
(d) API Manual of Petroleum Measurement Standards, Chapter 11 – Physical Properties Data
(e) API Manual of Petroleum Measurement Standards, Chapter 12 – Calculations of Petroleum Quantities
(f) API Manual of Petroleum Measurement Standards, Chapter 14.6 – Density Measurement
(g) GPA Standard 2145 – Table of Physical Properties for Hydrocarbons and Other Compounds of Interest to the Natural Gas Industry
(h) GPA Standard 8173 / API Manual of Petroleum Measurement Standards, Chapter 14.4 – Method for Converting Mass of Natural Gas Liquids and Vapors to Equivalent Liquid Volumes
(i) GPA Standard 8182 / API Manual of Petroleum Measurement Standards, Chapter 14.7 – Mass Measurement of Natural Gas Liquids
(j) And other standards as may be specified from time to time by the Commission.

(ii) Natural gas measurements shall be in MMSCF while the NGLs shall be in barrels in standard conditions of temperature and pressure.

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

(iii) Where there are multiple injectors to a gas gathering line, gas treatment, conditioning or processing facility, each injector shall install a measurement system for both flow, flow components (liquid and gas) and composition analysis approved by the Commission.

5. REPORTING REQUIREMENTS

For the purposes of these incentives, the Commission shall require the following reports on a in field-by-field basis to be submitted in a format prescribed by the Commission:

(i) Daily & Monthly Reports of wet raw natural gas shall account for both the gaseous phase in MMSCF and the liquid phase in BBL.

(ii) Daily & Monthly Reports of Dry Marketable natural gas in MMSCF

(iii) Daily & Monthly Reports of Natural Gas Liquids & Condensates in BBLs, separately and collectively for field and plant condensates.

(iv) Daily and Monthly NGL Yield (in bbls per MMSCF of Raw Wet Gas) and Wet Gas shrinkage (vol of Dry marketable gas per vol of Raw feed gas) Reports.

(v) Where there are Injectors to a gas gathering line, all injectors shall be required to comply with all the above reporting requirements.

(vi) These requirements shall also apply to all injectors of natural gas (AG or NAG) to gas conditioning, extraction, or processing facilities.

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

APPENDIX

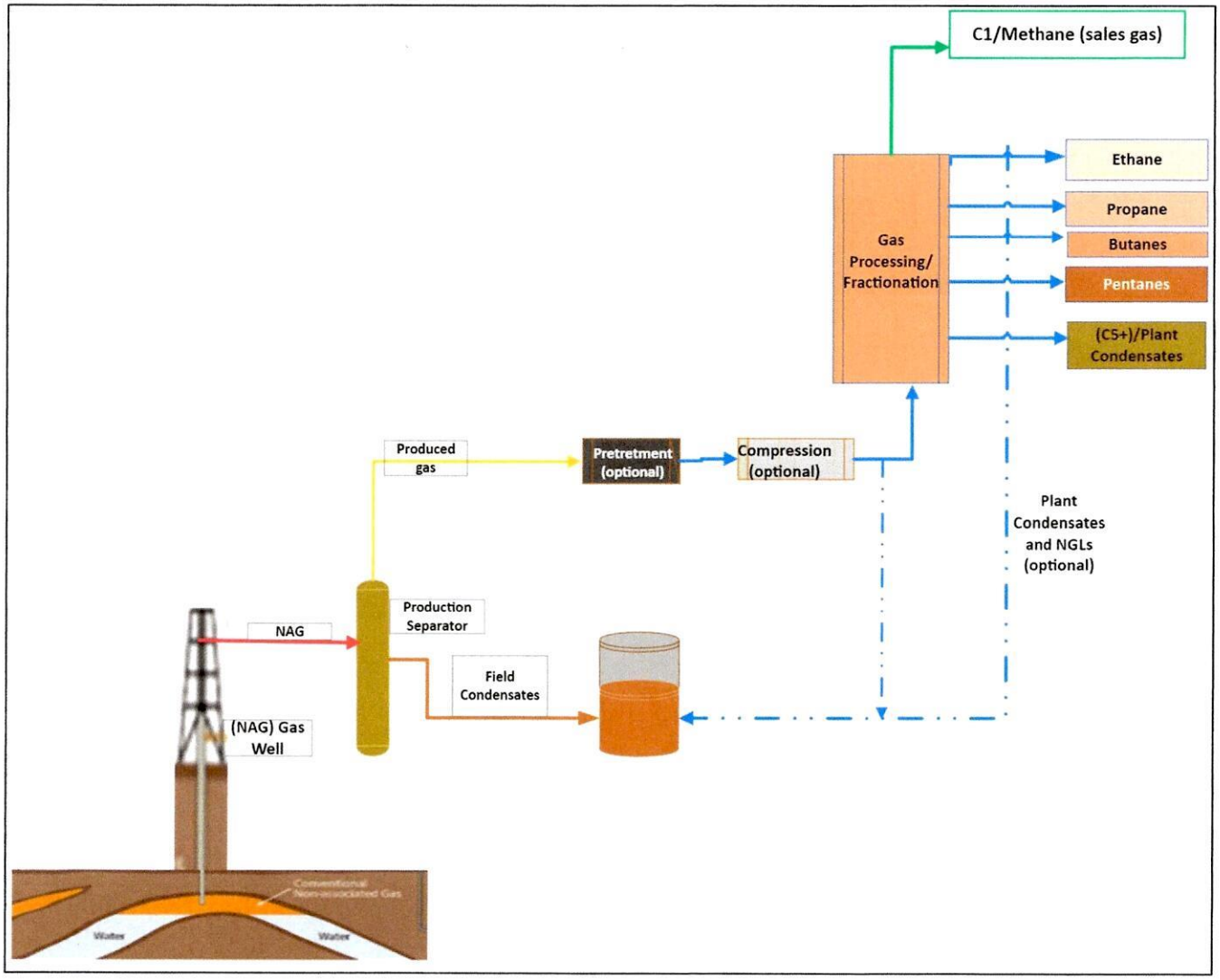
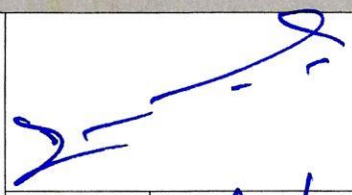


Fig.1 Schematic of NAG & NGL Production System

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved

NIGERIAN UPSTREAM PETROLEUM REGULATORY COMMISSION	Applicable to all Oil & Gas Operators
GUIDELINES FOR THE DETERMINATION & MEASUREMENT OF HYDROCARBON LIQUIDS CONTENT IN NON-ASSOCIATED GAS (NAG) FIELDS	Code: Version 1 Revision Date: April 2024

Approved by	
Engr. Gbenga Komolafe *FNSE,* (Commission Chief Executive, Nigerian Upstream Petroleum Regulatory Commission)	 Date 22/04/24

This is a property of the Nigerian Upstream Petroleum Regulatory Commission. All rights reserved