Improving Economics of Flare and Vent Reduction Projects

Fiscal Frameworks

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Top 10 Countries Account for 75% of Flaring

Source: GGFR
Russia is largest flaring contributor followed by Nigeria and Iran

Values in BCM

- Russia, 50
- Nigeria, 16.8
- Iran, 10.6
- Qatar, 2.9
- Saudi Arabia, 3.4
- Angola, 3.5
- Libya, 3.7
- Algeria, 5.2
- Kazakhstan, 5.3
- Iraq, 7
- ROW, 38.9

Source: GGFR
How Fiscal Frameworks Provide Incentives for Associated Gas Recovery

- **Royalty**
  - Royalty payable on flaring above permitted levels (*Penalty*)
  - Royalty waiver on gas utilised for on-site power generation

- **Tax**
  - Tax on Fuel/Flare (*Penalty*)
  - Separate ring fence (lower taxation) for associated gas projects
  - Associated gas capital expenditure allowed vs higher tax rates for oil

- **PSC**
  - Capital cost recovery offsets high marginal tax rate
  - Uplifts on eligible costs provide a return on investment
  - Higher profit share to contractor on gas development projects
Fiscal Terms Review: Brazil

• Under most fiscal regimes flared gas is not subject to royalty.
• In Brazil unauthorised flaring is subject to royalty.
  – ANP sets flaring targets for fields on an annual basis
  – Flared gas volumes above approved limit are subject to royalty
• Royalty on flaring is in effect a tax on flaring
Fiscal Terms Review: Alberta, Canada

• Otherwise Flared Solution Gas Royalty Waiver Program
  – Uneconomic gas exempt from royalty
  – Gas used for on-site power generation is exempt from royalty
Fiscal Terms Review: Norway

- CO2 tax on fuel (gas, oil and diesel) used in oil and gas operations
  - Currently US$0.11/litre for oil and US$0.11/SCM of gas burned
  - Deductible against Special and Income Taxes
Fiscal Terms Review: Algeria

• New Hydrocarbon Law (2006)
  – Flaring is prohibited. Flaring permitted only in exceptional circumstances
  – Non-deductible tax of US$1.15/SCM payable on any flared volumes
Fiscal Terms Review: Nigeria

• Associated Gas Framework Agreement

  – Separate ring fences for oil and associated gas developments
  – Capital expenditure for delivery of associated gas allowed against (85%) oil tax (PPT)
  – Associated gas profit (revenue – opex) taxed at 30% Income Tax
  – Lower gas royalty rate (5% vs 18.5%)
Fiscal Terms Review: Angola

• PSC terms
  – All gas owned by the State
  – All capital expenditure recoverable with (30% - 50%) uplift

• No-Flare Policy
  – Capital expenditure incurred by Contractors in storing and delivering associated gas to Sonangol is borne mainly by the host government
Enabling Fiscal Frameworks for Recovery and Utilisation of Associated Gas

- **Royalty**
  - Royalty payable on flaring above permitted levels (*Penalty*)

- **Tax**
  - Non-deductible Tax on Fuel/Flare (*Penalty*)
  - Separate ring fence (lower taxation) for associated gas projects
  - Associated gas capital expenditure allowed vs higher tax rates for oil, where applicable
  - Accelerated depreciation

- **PSC**
  - Uplifts on eligible costs
  - Higher profit share to contractor on gas development projects
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