REPORT ON THE ADMINISTRATION OF

THE PETROLEUM SUPPORT FUND (PSF)

2006

PETROLEUM PRODUCTS PRICING

REGULATORY AGENCY

(PPPRA)

January, 2007

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1.0 INTRODUCTION

Petroleum Support Fund (PSF) *was established by his Excellency, Chief Olusegun Obasanjo in his 2005 Independence Day speech and the provision for the sum of N150 billion was made in the 2006 budget. The Guidelines for the implementation of the Petroleum Support Fund (PSF) prepared by the PPPRA in consultation with the industry Operators was also approved by the Board.*

The petroleum Support Fund (PSF) is funded by the three tiers of Government to stabilize the domestic process of petroleum products against volatility in international Crude and Products Prices. Other attributes of the Fund include:

- ✓ *Attracting more participants to products procurement without the hindrance of full cost recovery at all times*
- ✓ *Guaranteeing effective products supply and distribution nationwide (products availability)*
- ✓ *Increasing desire for local production of products through investment in logistics facilities and establishment of local refineries*

In administering the Fund, a pricing policy based on import parity principle is upheld. The Import parity principle is employed to serve as a benchmark for products pricing and to strengthen the concept and process of deregulation

- *PSF implementation involves three phases of fund application:*
    - *Payment from the fund to the Marketers during period of under recovery applies when the landing cost of products is above the approved PPPRA ex-depot benchmarks*
    - *No payment is made to the Marketers nor into the fund if the landing cost of products is equal to the approved PPPRA ex-depot benchmark, as this reflects full cost recovery to the operators*

- *Payments by Marketers to the Fund on over-recovery apply when the landing cost of products is below the approved PPPRA ex-depot benchmark.*

In the last quarter of 2006, an additional funding of 100 billion naira was budgeted for to account for the high volatility in the price of crude oil.

2.0. PPPRA MANDATE

The Mandate is derived from the PPPRA Act No. 8 of May 2003:

i. Maintain constant surveillance over key indices relevant to pricing policy and periodically approve **benchmark prices** for all products

ii. Moderate volatility in petroleum products prices, while ensuring reasonable returns to the operators

iii. Establish parameters and codes of conduct for all operators in the downstream sector of the petroleum industry

iv. Prevent collusion and restrictive trade practices harmful to the sector

v. Exercise mediatory role as necessary for all the stakeholders in the sector

vi. Regulate the supply and distribution of petroleum products

vii. Establish an information data bank through liaison with all relevant agencies to facilitate the making of informed and realistic decisions on pricing policies

viii. Identify macro-economic factors relating to prices of petroleum products and advice the Federal Government on appropriate strategies for dealing with them

ix. Establish firm linkages with key segments of the Nigerian society and ensure that its decisions enjoy the widest possible understanding and support

3.0 MODALITIES FOR ADMINISTRATION OF PSF

The modalities for the administration of PSF are as follows:

- The signing of an agreement between the Marketer and the PPPRA
- Notification to Import by the Marketer
- Witnessing and confirmation of the discharge of the imported cargo by the PPPRA operatives at the jetty.
- Submission of the import documents
- Verification of the import documents at the PPPRA headquarters
- Processing of the import documents and determination of under or over recovery (as applicable)
- Approval of the payment due to the Marketers
- Verification of Marketer's claims by external auditors
- Payment of under-recovery to the Marketer from the Fund or payment of over recovery by the Marketer into the Fund.

4.0 PARTICIPATING MARKETERS

The PSF Scheme commenced in the year 2006 with the participation of the state-owned oil company (Nigerian National Petroleum Corporation - ***NNPC***) and four (4) petroleum products Marketers namely: ***Oando Plc; M.R.S Oil & Gas Co. Ltd; Chevron Nig. Plc; Total Nig. Plc***.

The total sum of (₦240, 852, 462, 381.90) was spent on subsidy in 2006. NNPC was responsible for *(₦221, 639, 992, 219.88) which represents 92.02% of the total subsidy. Other Marketers were responsible for (₦19, 212, 470, 162.02) which represent 7.98% (***see the appendix for the details***). Percentage contributions by each Marketer are as follows:

Oando Plc. ***47.13%***

M.R.S. Oil & Gas	***38.39%***
Chevron Nig. Plc.	***7.97%***
Total Nig. Plc.	***6.50%***

The total claims due to other Marketers were paid in two installments. The sum of (₦4, 242, 911, 443.99) was paid to Marketers in December 2006. The delay in payment was due to non-remittance of the fund into the PSF account with the CBN and delayed auditing by the Akintola Williams Deloitte appointed by the Ministry of Finance. The second installment of (₦14, 969, 558, 718.03) was paid in January, 2007.

In terms of supply, NNPC supplied 91.74% of PMS and 98.12& of HHK while other Marketers supplied 8.26% of PMS and 1.88% of HHK (***see Appendices I - III for details***).

**Claims on AGO was excluded from PSF since July, 2006*

5.0 CHALLENGES

i. ***Imports Reception/Discharge***: Lack of adequate berthing facilities at the Jetty has in no little way impeded the normal discharge of imported cargoes thereby leading to larger-than-expected demurrage on the vessels. Marketers are being advised as a matter of urgency to build an import reception facility (Jetty) at Apapa to meet their imports requirements.

ii. ***Market Fundamentals***: The volatility in the prices of petroleum products often makes the Marketers to exercise caution on further importation of products. The Marketers are strategically watching the oil market for stability before resuming importation of reasonable quantity of products.

The Marketers are however expected to use oil market risk management tools to minimize losses.

iii. ***Monopoly***: NNPC monopoly in the use of downstream facilities and non-implementation of Open-Access regime of petroleum regulation are threatening the sustainability of the deregulation policy.

iv. ***Fund Availability***: Non-release of monthly budgeted amount into the PSF Account with the CBN has affected the Marketers' Confidence in the implementation of the PSF scheme.

v. ***Products Supply***: Sustainability of products availability in the event of withdrawal by other Marketers due to non-payment on under recovery

vi. ***Products Stocks***: Depletion of NNPC products reserves (days sufficiency)

vii. ***Price Distortion***: Imported petroleum products regulated under the Scheme are expected to be sold at the government approved price. Selling above the ceiling price amounts to distortion in pricing and a breach of agreement which would attract sanctions.

viii. ***Import Documents*****:** The imports documents were usually bulky and required a great deal of time and energy to sort out. Frantic efforts are usually made to substantiate every claim by the Marketer.

ix. ***Determination of Under Recovery***: We had difficulties in arriving at the appropriate pricing template for the Marketer's transactions due to other costs incurred by the importer that are not reflected on the template. Determination of appropriate under/over recovery is a prime factor that would ensure the success of the PSF.

6.0 THE WAY FORWARD

In January, 2007 a meeting of the stakeholders was summoned at the instance of the PPPRA to tackle these challenges and provide the way forward. The following are the resolutions by the stakeholders on the way forward:

i. That the quantity imported as indicated on the Vessel's Arrival Ullage report be used as the verified quantity under the Scheme. For record purposes, shore tank, daily opening and closing stock measurements should be witnessed and subsequent reports given to the PPPRA staff at the depot.

ii. That the following import documents be submitted by Marketers for verification and payment of under-recovery:

Documents to be Attached

Import Confirmation

1. Petroleum Products Import Permit by DPR
2. Approved Form M
3. Proforma Invoice by the Trading Company

Port of Origin

4. Bill of Lading
5. Quality Certificate
6. Quantity Certificate
7. Vessel Ullage Report (before & after discharge)
8. Notice of Readiness (NOR) - Arrival & Discharge

Arrival Port

9. Notice of Readiness (NOR) - Arrival & Discharge
10. Quality Certificate
11. Certificate of Transfers - after STS (as applicable)
12. Marketer's Tank Ullage Report (before & after discharge)
13. Custom's Clearance Certificate

iii. That a meeting be scheduled between the PPMC and Other Marketers to develop programming schedule for effective utilization of Apapa Jetty and berthing of cargo vessels to avoid unnecessary demurrage.

iv. That the PPPRA should invoke the penalty provided under the PSF Guidelines against defaulting Marketers in the retailing of petroleum products covered by the Scheme.

v. That the DPR be urged to ensure effective enforcement of uniform pricing nationwide in line with the PSF Guidelines and the rules and regulations governing the operations of the PEF.

The PPPRA template is also being reviewed for improved efficiency and responsiveness to the market fundamentals.

Also, a collaborative meeting between PPPRA, Central Bank of Nigeria (CBN) and Department of Petroleum Resources (DPR) is now put in place to ensure effective adherence to the principles of the PSF Guidelines.

7.0 2007 OUTLOOK

The government has budgeted the sum of N100 billion naira for the PSF in 2007. Based on the estimated 2007 projected average daily supply of 28 million and 7 million litres of PMS and HHK respectively and average subsidy per litre for 2006, a sizeable amount will be required to subsidize both PMS and HHK (***see Appendix IV for details***).

APPENDIX I

2006 MONTHLY DIVERGENCE BETWEEN PETROLEUM PRODUCTS COSTS

BASED ON PPPRA VALIDATED PRICES AND ACTUAL IMPORTATION/PRODUCTION COSTS

NNPC

MONTH	PRODUCTS			TOTAL
	PMS	HHK	AGO	
	(NAIRA)	*(NAIRA)*	*(NAIRA)*	
JANUARY	7,923,521,517.16	5,914,099,003.82	5,249,695,360.00	**19,087,315,880.98**
FEBRUARY	2,642,874,806.79	3,515,300,946.65	2,126,374,250.00	**8,284,550,003.45**
MARCH	5,431,577,507.55	4,921,539,139.55	2,384,260,840.00	**12,737,377,487.10**
APRIL	16,790,627,495.55	10,872,438,335.82	2,605,208,980.00	**30,268,274,811.37**
MAY	19,024,023,118.47	6,220,671,072.00	3,806,657,974.08	**29,051,352,164.55**
JUNE	18,280,100,855.00	7,770,424,097.00	3,778,338,900.00	**29,828,863,852.00**
**JULY*	20,264,701,511.00	6,282,018,677.00	*	**26,546,720,188.00**
**AUGUST*	17,414,756,645.00	8,475,701,943.00	*	**25,890,458,588.00**
**SEPTEMBER*	4,655,891,535.49	7,676,128,899.26	*	**12,332,020,434.75**
**OCTOBER*	1,585,799,213.26	5,403,838,617.47	*	**6,989,637,830.72**
**NOVEMBER*	2,984,136,069.38	6,130,877,404.59	*	**9,115,013,473.97**
**DECEMBER*	3,752,312,265.00	7,756,095,240.00	*	**11,508,407,505.00**
TOTAL	**120,750,322,539.64**	**80,939,133,376.16**	**19,950,536,304.08**	**221,639,992,219.88**

**** Claims on AGO was excluded from PSF since July, 2006***

APPENDIX II

SUMMARY OF AUDITED PAYMENT DUE TO MARKETERS UNDER THE PSF SCHEME				
Company	*Quantity*	*Payment Due*		
	(Litres)	***Total***	*1ST Payment*	*2nd Payment*
		(Naira)	*(Naira)*	*(Naira)*
OANDO PLC.	420,307,284.00	9,055,588,574.00	1,639,478,991.39	7,416,109,582.61
MRS OIL & GAS CO. LTD	271,734,466.00	7,376,212,359.02	1,559,103,623.26	5,817,108,735.77
CHEVRON NIG. PLC.	70,609,373.00	1,531,216,439.00	765,608,222.93	765,608,216.08
TOTAL NIG. PLC.	49,578,741.00	1,249,452,790.00	278,720,606.42	970,732,183.58
GRAND TOTAL	**812,229,864.00**	**19,212,470,162.02**	**4,242,911,443.99**	**14,969,558,718.03**

APPENDIX III

PETROLEUM PRODUCTS SUPPLY (NNPC)

Period	Quantity (Litres)					
	PMS		HHK		AGO	
	LOCAL	*IMPORT*	*LOCAL*	*IMPORT*	*LOCAL*	*IMPORT*
JAN	235,418,000.00	599,515,774.20	119,592,000.00	68,875,144.80	201,292,000.00	*
FEB	121,836,000.00	435,732,524.64	66,734,000.00	50,795,286.08	112,805,000.00	*
MAR	132,152,000.00	505,357,097.13	85,086,000.00	77,555,742.88	142,259,000.00	*
APR	200,065,000.00	620,190,373.50	87,743,000.00	197,473,115.84	142,673,000.00	*
MAY	129,515,121.00	717,880,118.13	87,010,000.00	68,506,776.80	138,122,568.00	*
JUN	132,210,000.00	654,030,897.00	85,670,000.00	110,107,881.00	141,670,000.00	*
JUL	114,056,073.00	636,210,550.88	71,430,128.00	78,391,447.90	124,166,208.00	*
AUG	139,350,000.00	642,281,806.35	88,210,000.00	110,191,262.72	139,500,000.00	*
SEP	157,228,000.00	490,322,978.51	94,092,000.00	133,753,915.68	149,065,000.00	*
OCT	58,170,000.00	558,872,495.43	37,640,000.00	172,953,866.62	63,770,000.00	*
NOV	114,540,000.00	637,131,554.00	72,400,000.00	142,492,303.00	120,560,000.00	*
DEC	89,170,000.00	433,436,165.00	56,700,000.00	179,406,400.00	96,120,000.00	*
TOTAL	***1,623,710,194.00***	***6,930,962,334.77***	***952,307,128.00***	***1,390,503,143.32***	***1,572,002,776.00***	*
GRAND TOTAL		**8,554,672,528.77**		**2,342,810,271.32**	**1,572,002,776.00**	
% Contribution	***18.98***	***81.02***	***40.65***	***59.35***	***100.00***	*****
Daily Supply	**4,448,521.08**	**18,988,937.90**	**2,609,060.62**	**3,809,597.65**	**4,306,856.92**	*****

APPENDIX III (Continued)

SUMMARY						
	NNPC SUPPLY	OTHER MARKETERS	TOTAL			
		SUPPLY				
PMS	8,554,672,528.77	769,844,067.52	***9,324,516,596.29***			
HHK	2,342,810,271.32	44,844,067.52	***2,387,654,338.84***			
Other Statistical Analysis						
				%Supply		
	PMS	***HHK***		**NNPC**	**OTHER MARKETERS**	
Grand Total	9,324,516,596.29	2,387,654,338.84				
Daily	25,546,620.81	6,541,518.74	**PMS**	91.74%	8.26%	
			HHK	98.12%	1.88%	

EST. AGO Daily Supply	10,000,000
NNPC	4,306,857
**Other Marketers	5,693,143
% Contribution (NNPC)	***43.07%***
% Contribution (Others)	***56.93%***

***** Quantity supplied by Other Marketers is an estimated value.***

APPENDIX IV

A. PSF SUMMARY 2006			
	PMS		***HHK***
Total Supply	9,324,516,596.29		2,387,654,338.84
(Jan. - Dec. 06) (Litres)			
Daily Supply 2006	25,546,620.81		6,541,518.74
2007 Projected Average Daily	28,000,000.00		7,000,000.00
Supply (Litres)			
Total Subsidy	158,201,963,598.74		82,650,498,783.16
(Jan. - Dec. 06) (Naira)			
2006 Average Daily	433,430,037.26		226,439,722.69
Subsidy (Naira)			
2006 Average Subsidy per litre	16.97		34.62
Total Subsidy (PMS & HHK)	***240,852,462,381.90***		
B. BUDGETED PSF FOR 2007			
	PMS		***HHK***
Amount Budgeted	100,000,000,000.00		
Balance Required	**161,838,245,822.30**		
% Contribution by Product	***65.68%***		***34.32%***
Amount Budgeted by Product	65,684,179,449.20		34,315,820,550.80
Balance Required by Product	106,302,123,803.36		55,536,122,018.95
Budgeted Subsidy per Litre	**6.43**		**13.43**
C. AMOUNT REQUIRED IN 2007 BASED ON 2006 AVERAGE SUBSIDY PER LITRE			
	PMS		***HHK***
Amount Required 2007 based	173,394,947,746.93		88,443,298,075.37
on 2006 average subsidy per litre			
TOTAL (PMS & HHK)	**261,838,245,822.30**		
Balance Required per Litre	**10.40**		**21.74**
	2006 PSF Budget (Naira)		**2007 PSF Budget (Naira)**
Annual	250,000,000,000.00		100,000,000,000.00
Daily	684,931,506.85		273,972,602.74
Monthly	20,833,333,333.33		8,333,333,333.33