



# Gas Pricing Regime for Nigerian Gas-Based Industries



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# The Gas Pricing Path for Gas Based Industries: A focus on Nigeria

## The Context:

- 1 The global clamor for cleaner energy sources continues to threaten the continued reliance on fossil fuels.

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- 2 The Federal Government has identified natural gas as a cleaner energy source. The recently enacted Petroleum Industry Act also positions gas as Nigeria’s transition fuel.

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- 3 At the COP26 Conference on Climate Change, Nigeria reaffirmed its commitment to the Paris Agreement 2015 and adopted climate change policies with a target to go carbon-neutral by 2060.

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- 4 Up to 10% of Nigeria’s annual gas production is flared which ranks Nigeria 7th among the countries that flare gas the most. Nigeria has an opportunity to leverage its vast gas resources to quicken industrialization, and the Nigerian gas-based-industries have the highest market growth potential.

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  - Gas Based Industries
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    - Willing Parties Pricing
  - Key Takeaways

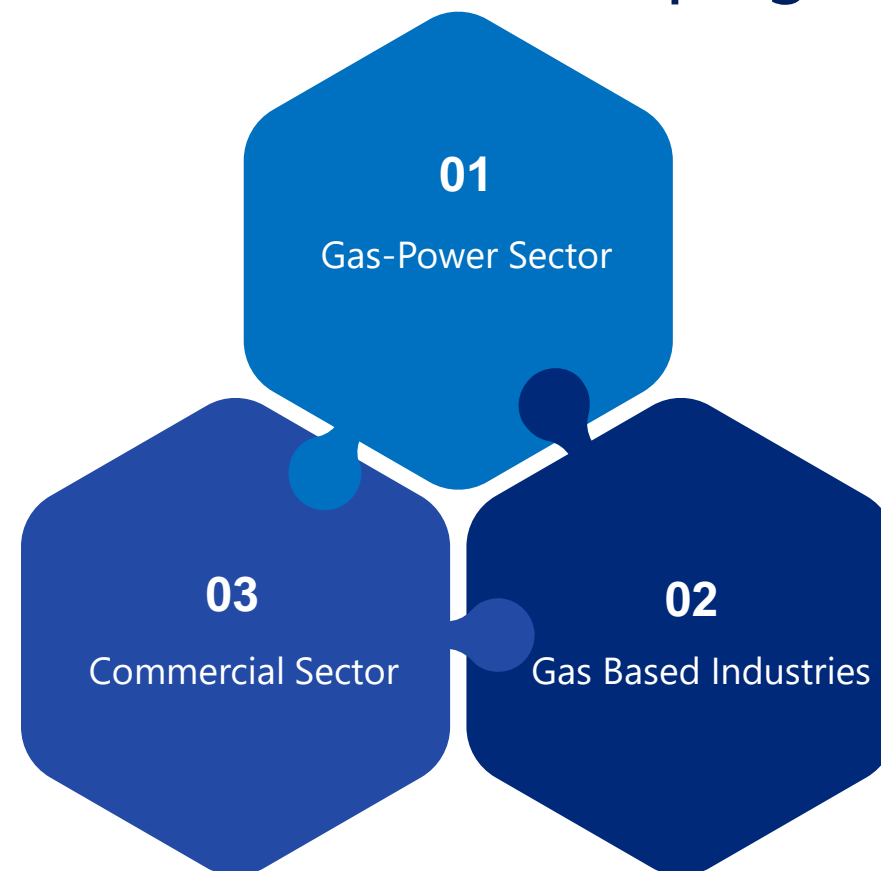
# The Gas Based Industries (GBI)

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The Federal Government segmented the entire domestic gas market into three (3) broad groupings in recognition of the fact that the different demand sectors have different strategic benefits to the country and have different pricing considerations.

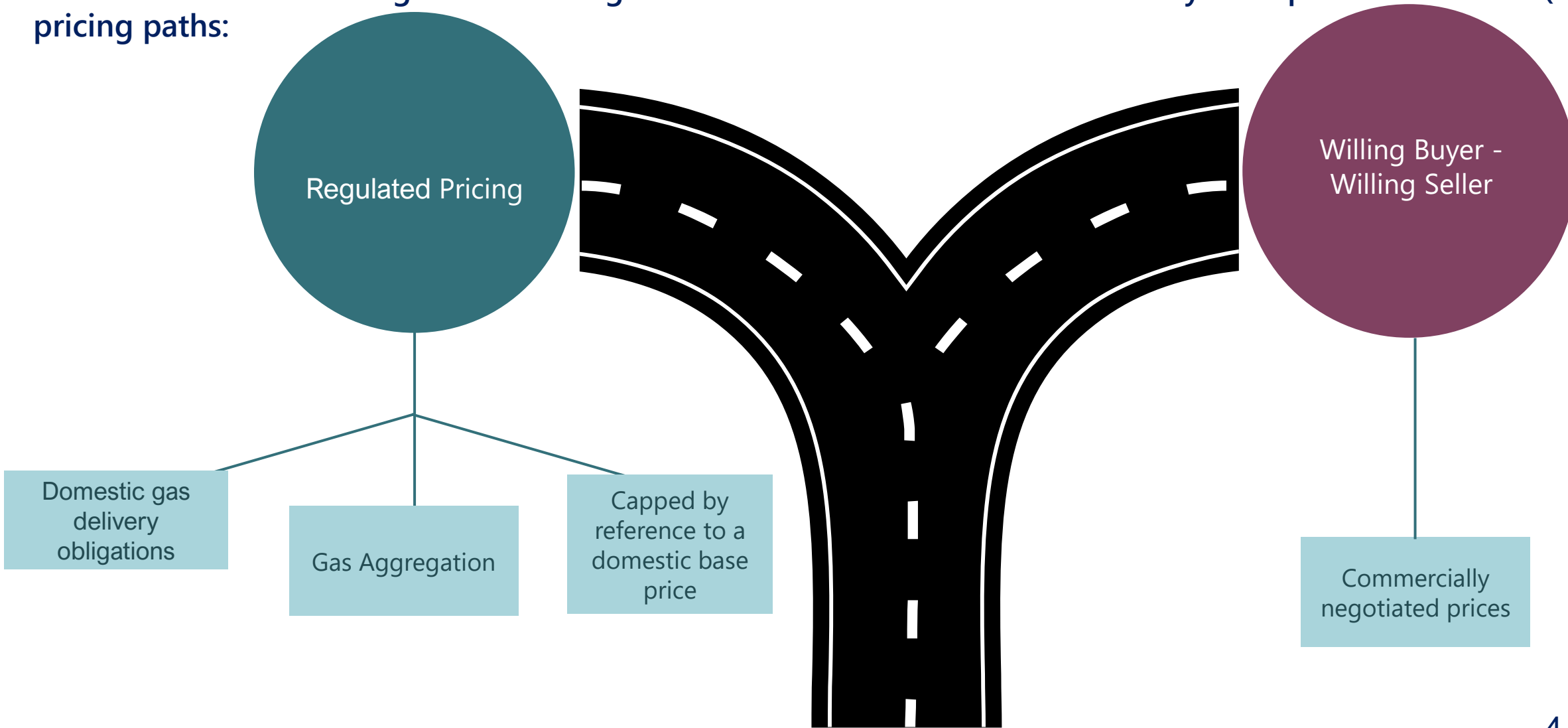
The gas-based-industries are industries which utilize gas as feedstock in the production of value-added products such as ammonia, urea, methanol, polypropylene, low sulphur diesel.

## The 3 Broad Groupings



# Gas Pricing Paths

An offtaker of feedstock gas within the gas-based-industries demand sector may be exposed to the two (2) pricing paths:



# The Regulated Pricing Path

Domestic delivery obligation	Gas aggregation process	Pricing formulation
<p>The Nigerian Upstream Petroleum Regulatory Commission (Commission) allocates a domestic gas delivery obligation (DGDO) to upstream producers based on domestic gas demand requirements.</p> <p>Gas supplied in fulfilment of the DGDO is subject to the regulated pricing framework.</p> <p>New Pricing formula for the Gas Based Industries: <math>CP = NRP * (1 + EPF) \leq EPP</math></p> <ul style="list-style-type: none"> <li>● CP is the applicable gas price in \$/Mmbtu,</li> <li>● EPP is the ceiling price which is the domestic base price applicable for any year</li> <li>● NRP is the National Reference Price which is US\$1/Mmbtu (subject to a change by the Authority)</li> <li>● EPF is the End Product Factor which is described by the following formula (CMPP - PRP)/PRP</li> <li>● PRP = Product Reference Price in \$/MT, which would vary depending on the industry (subject to a change by the Authority)</li> <li>● CMPP=Average Current Month End Product Price in \$/MT (subject to a change by the Authority)</li> </ul> <p>The floor price for GBIs is US\$0.90 per MMBtu while the ceiling price is the applicable domestic base price for the relevant year.</p> <p>DBP is determined annually based on the criteria specified in the Petroleum Industry Act, 2021.</p> <p>DBP must be set at a level that incentivizes natural gas supplies for the domestic market on a voluntary basis by upstream producers.</p>	<p>To access the regulated price, there is a gas aggregation process that must be followed by a participant in the gas-based-industries.</p> <p>The regulated price under each gas purchase and sale agreement between a supplier and customer is aggregated based on procedures established by the domestic gas aggregator.</p> <p>The domestic gas aggregator issues a gas purchase order to an upstream supplier if a customer within the GBI demand sector requires gas which is included in the DGDO.</p> <p>The customer makes payment into the escrow account of the domestic gas aggregator, from which the domestic gas aggregator pays the supplier.</p>	<p><u>2021</u>: The Nigerian Midstream and Downstream Petroleum Regulatory Authority (Authority) announced the Domestic Base Price for 2021 on 4 December 2021, establishing that the Domestic Base Price shall be the Export Parity Price* at the delivery point where there is dominant supply of gas in Nigeria.</p> <p><i>*Export Parity Price is defined as a market driven pricing framework, responsive to fiscal changes and weighted to ensure pricing flexibility while moderating swings to protect fragile domestic industries.</i></p> <p><u>2022</u>: The Authority has noted that consultations with industry stakeholders will be conducted prior to the final declaration of the Domestic Base Price for 2022.</p>
<p>DBP must not be higher than the average gas prices in major emerging countries that are significant producers of natural gas and DBP must be adjusted upwards annually to account for inflation.</p> <p>DBP will be based on the lowest cost of gas supply available in the three-tier classification of supply sources for the domestic market:</p> <ul style="list-style-type: none"> <li>Tier One: All associated gas from producing fields.</li> <li>Tier Two: All gas cap from depleted oil fields.</li> </ul>		

# Willing Parties' Pricing Path

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- An upstream producer who has fulfilled its DGDO is permitted to enter into bilateral willing buyer/willing seller contracts with third parties.
- Parties are free to negotiate and determine the price of gas.

## Penalties for non-compliance with DGDO

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The Petroleum Industry Act stipulates several penalties to disincentivize an upstream producer from non-compliance with its DGDO. A defaulting producer may:

- be liable to pay a penalty of US\$ 3.50 per MMBtu not delivered.
- Be excluded from supplying gas to new midstream gas export operations.
- be subject to additional sanctions imposed by the Nigerian Upstream Petroleum Regulatory Commission as prescribed in regulations made pursuant to the Petroleum Industry Act, 2021.

- ❖ A participant in the gas-based-industries may optimize its feedstock supply with a mix of volumes from the domestic gas delivery volumes and the willing-seller-willing-buyer contracted volumes.
- ❖ The development of gas-based-industries have been critical to the success of several oil-rich countries including Saudi Arabia. As the global economy recalibrates towards lower emissions and reduction in overall fossil fuel consumption, Nigeria must reduce its dependence on carbon exports and diversify its sources of foreign exchange. The Petroleum Industry Act, 2021 seeks to usher in a regulatory framework which encourage investments in the entire gas-value-chain.
- ❖ Benchmarking Nigeria against other peer countries (in relation to gas reserves), there is significant room to maximize value by expanding gas use for petrochemicals and fertilizers to position Nigeria as a more substantive player in the global industrial chemicals sector and further catalyze the push for economic diversification.

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