

Key contacts

TEMPLARS ThoughtLab

The Interplay Between the Domestic Gas Pricing Framework and the Unregulated Gas Market: A Focus on Nigeria

Introduction

Nigeria's domestic gas market is characterized by an intricate interplay between the regulated pricing framework and market dynamics. Under the Gas Pricing and Domestic Demand Regulations, 2023 (the "**Pricing and Demand Reg**"), Nigeria's gas market is broadly categorized into the **Regulated Domestic Gas Market** and the **Unregulated Market**, presenting a nuanced landscape.

While our previous analysis discussed the mandatory regulated pricing framework for the regulated domestic gas market (i.e., the Strategic Sectors and Gas Distribution)<sup>1</sup>; this thought leadership piece focuses on the intricacies of the Unregulated Market as defined in the Pricing and Demand Reg, and the unregulated pricing framework. Understanding the unregulated pricing framework is essential for a full appreciation of the dynamics of the gas value chain.

The Unregulated Gas Market

The Nigeria's Unregulated Gas Market refer cumulatively to the gas sale transactions that are **not subject to the mandatory regulated pricing framework**. This market primarily caters to industrial and commercial consumers with sufficient bargaining power to negotiate gas prices directly with gas producers. Unlike the regulated market, where prices are capped, the gas prices for the Unregulated Market are unregulated and operates on a supply-demand equilibrium, allowing for willing seller-willing buyer led negotiations based on market conditions.



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<sup>1</sup> Access at: [An-Overview-of-Nigerias-Domestic-Gas-Pricing.pdf \(templars-law.com\)](#)

## Which transactions occur in the Unregulated Gas Market?

- i. Sale of marketable natural gas to the Strategic Sectors: In spite of the mandatory regulated pricing framework applicable to the Strategic Sectors, an upstream producer who has satisfied its domestic gas delivery obligations may sell marketable natural gas volumes to the Strategic Sectors based on mutually agreed terms.
- ii. Customers whose export gas volumes surpass their domestic consumption<sup>2</sup>.
- iii. Customers of the Strategic Sectors who choose to negotiate gas sale contracts directly (bypassing the gas aggregator) with upstream producers and who find such gas sale contracts satisfactory for its requirements.
- iv. Sale of marketable natural gas to the customers who are not part of the Strategic Sectors.
- v. Sale of marketable natural gas to gas retailers, wholesale gas suppliers, gas distributors and exporters<sup>3</sup>.
- vi. Sale of raw gas: Domestic sale and export of raw gas<sup>4</sup>.

## Unregulated Pricing

The Pricing and Demand Reg provides for two unregulated pricing mechanisms:

- (i) Free Market Price; and
- (ii) Transfer Price.

### *Free Market Price*

The Free Market Price, the cornerstone of the Unregulated Gas Market, is determined through the unfettered interaction of supply and demand. Producers and consumers negotiate prices based on market conditions, production costs, and bargaining power. This mechanism fosters competition, incentivizes efficiency, and potentially leads to lower prices for consumers. However, it also exposes the market to price volatility and potential market power imbalances.

### *Transfer Price*

In contrast, the transfer price is primarily employed within related or affiliated entities. It represents the hypothetical price at which gas would be transferred between independent parties. The concept of arm's length pricing is crucial in determining transfer prices, ensuring that transactions between related entities are conducted at market-based values. This mechanism helps to prevent tax evasion, profit shifting, and other forms of transfer pricing abuse.

It is crucial to note that the unregulated pricing mechanisms do not apply only to the unregulated market. Even within the ostensibly regulated market, market-based pricing principles can be applied under specific conditions, creating a nuanced pricing landscape.

<sup>2</sup> Section 173(3), PIA.

<sup>3</sup> Section 7, Pricing and Demand Reg.

<sup>4</sup> Section 5(2), Pricing and Demand Reg.

## Reporting Obligations

### *i) Notification of sale of raw gas on a free market basis*

Raw gas from upstream producers can be traded freely at the measurement point, provided the producer informs the NUPRC and NMDPRA of the gas volume sold and the agreed-upon price<sup>5</sup>.

### *ii) Notification of volumes sold and their applicable prices*

Prior to the 1st of February of each year, upstream gas producers, wholesale suppliers, gas distributors, gas retailers and wholesale customers of Marketable Natural Gas shall notify the NMDPRA of the volumes sold and gas prices applied in the preceding year

### *iii) Notification of relevant data*

Gas producers, licensees, or permit holders must submit gas volume, pricing, or other specified data to the NMDPRA within ten business days of receiving a formal request<sup>6</sup>.

### *iv) Notification of Voluntary Sales*

All gas sales conducted on a willing seller- willing buyer free market pricing basis must be reported to the NUPRC by the upstream gas producer.

While the unregulated market is poised to foster competition and efficiency, it is evident that a balanced approach is necessary to maximize the sector's potential. Addressing market power concentration, enhancing transparency, and ensuring adequate regulatory oversight are crucial steps towards creating a level playing field for all participants. By fostering a competitive and equitable environment, the gas market can contribute significantly to Nigeria's economic growth and energy security.

<sup>5</sup> Section 5(2), Pricing and Demand Reg.

<sup>6</sup> Section 15, Pricing and Demand Reg.