

ANALYSIS OF THE 2024 NATURAL GAS PRICING FRAMEWORK AND ITS IMPACT ON THE NIGERIAN ECONOMY



INTRODUCTION

The Nigerian Midstream and Downstream Petroleum Regulatory Authority (“**NMDPRA**”) is created pursuant to the Petroleum Industry Act 2021 (the “**PIA**”) with the primary objective of regulating the midstream and downstream petroleum operations. Section 167 of the PIA empowers NMDPRA to determine the domestic base price for natural gas including the prices for the strategic domestic sector (i.e. power sector), strategic industrial sector (i.e. gas based industries that use gas as feedstock such as fertilizer and methanol producers) and the commercial sector (i.e. the sector that uses gas as fuel as opposed to feedstock such as cement and manufacturing companies). This price determination is required to be done yearly based on the parameters specified in the PIA and NMDPRA will continue to determine the price for strategic sector (i.e. strategic domestic sector and strategic industrial sector) if in its opinion, the control of prices for natural gas is required. The PIA requires that the domestic

base price must be set at a level that incentivizes natural gas supplies for the domestic market on a voluntary basis by the upstream producers.

On the other hand, there have been clarion calls by producers of gas and investors in gas industry for an upward adjustment of gas prices to reflect the prevailing economic realities. In exercise of its powers to regulate gas pricing, the NMDPRA published the Gas Pricing and Domestic Demand Regulations 2023 (the “**Gas Pricing Regulations**”), and more recently issued the *Announcement on Establishment of the Year 2024 Domestic Base Price (DBP) and Applicable Wholesale Price of Natural Gas for the Strategic Sectors* (the “**Announcement**”), on April 1, 2024, to fix domestic base price of natural gas for 2024.

This Article highlights the key provisions of the Directive as well as its impacts/implications on the Nigerian economy.

THE DOMESTIC BASE GAS PRICE FOR THE DIFFERENT SECTORS IN THE YEAR 2024

The table below highlights the gas pricing mechanism for the different sectors under the PIA:

SECTOR	GAS PRICE
POWER SECTOR	Domestic Base Price.
COMMERCIAL SECTOR	Domestic Base Price plus US\$0.50 per MMBtu.
GAS DISTRIBUTORS	Price determined through negotiation provided that such price shall not exceed the commercial sector price.
GAS-BASED INDUSTRIES	A floor price of US\$0.90 per MMBtu while the ceiling price is the Domestic Base Price applicable for any particular year.

In view of the PIA pricing benchmark above, the NMDPRA in the Announcement states that the new wholesale price of natural gas for the strategic sectors in the year 2024 shall be as follows:

SECTOR	FLOOR PRICE USD/MMBTU	PRICE USD/MMBTU	CEILING PRICE
Power	-	2.42	-
Commercial	-	2.92	-
Gas Based Industries	0.9	As calculated for individual industries, based on the formula prescribed in Schedule 4 to the PIA.	2.42

The above shows that the Domestic Base Price for year 2024 which is essentially the price the power sector generation companies (“**GenCos**”) and the gas-based industries will offtake natural gas is set at USD2.42 while the players in the commercial sector will offtake gas at USD2.92. This power sector price reflects an increase of USD0.24 from the old price of USD2.18 to USD2.42.

COMMENTARIES

The Announcement is expected to encourage and spur more investments and commercialization of natural gas rather than flaring of natural gas as NDMPRA continues to take concrete steps to achieve cost reflective natural gas pricing in the Nigerian gas domestic market. For instance, prior to this time, some gas producers prefer to flare gas and pay the applicable penalties rather than commercialize the natural gas as the domestic base price was considered disincentivizing.

On the other hand, the increase in gas pricing for the power sector has inevitably led to an increase in the tariff payable by some category of customers in the power and also has the effect of increasing the subsidy that will be borne by the government in the sector. For instance, the federal government under the old natural gas pricing regime had estimated subsidy benefit for end customers within the Eko Electricity Distribution Plc (“**EKEDP**”) franchise area in 2024 to be approximately NGN198.78 billion (i.e. NGN16.56 billion monthly). It however, took steps to mitigate its subsidy exposure by increasing the electricity tariff payable by the “Band A” customers who enjoy a minimum of 20 hours of power supply by 230%.

In addition to the above, there is also the concern of the affordability of the natural gas price by the offtakers in the commercial sector and gas based industries which may ultimately lead to an increase in the prices of their products and inflation.

CONCLUSION

The new gas pricing regime is a step in the right direction as it seeks to provide comfort to gas producers and investors and opens up the economy and the strategic sectors to investments. However, the Announcement also comes with potential long-term challenges associated with the readiness of the domestic market to offtake gas at high price. Accordingly, it is yet to be seen how the market will respond to the price increase in the coming months.



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