

*Extraordinary*



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**PETROLEUM INDUSTRY ACT, NO. 6, 2021**  
**DOMESTIC GAS DELIVERY OBLIGATION REGULATIONS, 2022**



ARRANGEMENT OF REGULATIONS

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SCHEDULE

**B 3222**

S. I. No. 74 of 2022

**PETROLEUM INDUSTRY ACT, NO. 6, 2021****DOMESTIC GAS DELIVERY OBLIGATION REGULATIONS, 2022**

[18th Day of November, 2022]

Commence-  
ment.

**In exercise of the powers conferred on it by sections 10(f) and 110(1) of the Petroleum Industry Act, 2021 (“the Act”) and of all other powers enabling it in that behalf, the Nigerian Upstream Petroleum Regulatory Commission (“Commission”) makes the following Regulations —**

**PART I — OBJECTIVES AND APPLICATION**

**1.** The objectives of these Regulations are to —

Objectives.

(a) determine, regulate and enforce the domestic gas delivery obligations in accordance with the Act ;

(b) establish the criteria for allocation of domestic gas delivery obligations ; and

(c) determine the pricing mechanism for utilised gas delivery obligation to the domestic market.

**2.** These Regulations applies to licensees and lessees in relation to domestic gas delivery obligations.

Application.

**PART II — DETERMINATION AND ALLOCATION OF DOMESTIC GAS DELIVERY OBLIGATIONS**

**3.—(1)** A lessee shall, prior to 1st of February of each year, make available to the Commission information relating to its natural gas reserves and resources, as at December 31st of the preceding year, based on the classification indicated in the Schedule to these Regulations.

Information  
required of a  
lessee of its  
natural gas  
reserves and  
resources.

(2) A lessee shall, in determining proved developed producing reserves, use the prices as applicable to the average of its first day sales of each month from January 1st to December 31st of the preceding year.

(3) A lessee shall, in determining proved developed non-producing reserves and proved undeveloped reserves for domestic gas demand requirement for the strategic sectors, ascertain the commercial value of the natural gas at the measurement point on the basis of the total revenue expected to be generated as follows —

(a) the price of raw gas that the lessee is expected to obtain, where they receive aggregate natural gas price as estimated, and the value of the possible natural gas liquid content in the raw gas ;

(b) the price for natural gas liquid, where it is produced separately ; and

(c) the price for condensate as projected to be received,

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(4) The prices referred to in sub-regulation (3) of this regulation shall be determined as the average for the first day sales of each month of the preceding year.

(5) A lessee shall in addition to reporting reserves, provide estimates of the rates at which the marketable natural gas shall be produced, either directly at the measurement point or at any other marketable delivery point.

(6) A lessee shall, for gas destined for export and the domestic free market, use such price as may be applicable at the end of the preceding year.

(7) A lessee shall report to the Commission volume of tiers 1, 2 and 3 gas that are —

(a) connected but not produced or delivered for lack of domestic gas demand or for any other reason stipulated in section 110(10) of the Act ; and

(b) not connected to gas infrastructure or connected to such gas infrastructure, but with insufficient spare capacity for the delivery of the gas.

(8) The domestic gas demand requirement for gas under the proved developed non-producing and the proved undeveloped, shall include gas that is not specifically destined or committed for any purpose at the time of reporting and the volume shall be separately identified.

(9) Where the lessee reports low-Btu resources, it shall inform the Commission of the marketable gas price level at which the resource is projected to be commercially viable.

(10) A lessee shall for reporting purposes of low-Btu resources, include proved reserves of low-Btu gas.

(11) A lessee shall report to the Commission the —

(a) low estimate marginal contingent resources where the lessee, or any party constituting the lessee, is already providing such information in its annual report or any communication with its parent company, shareholders, or other parties ; and

(b) marketable gas price levels at which such resources are projected to be commercially viable.

(12) Proved gas reserves in the deep offshore shall be included in the estimates for export, and where otherwise, be allocated to free market and be separately identified.

(13) A lessee shall report proved developed producing reserves under the domestic gas demand requirement for gas and the report shall include the —

- (a) production ;
- (b) delivery rates of the marketable natural gas ; and
- (c) applicable gas purchase and sale or other contracts or arrangements under the existing domestic gas delivery obligations and contracts freely entered into for the domestic market.

4.—(1) For the purposes of regulation 3 of this regulation, the national domestic gas demand requirement supply curve shall be the supply curve of natural gas to be supplied on a voluntary basis for specific price level by the lessees.

Domestic gas demand requirement supply curve.

(2) The Commission shall rely on the national domestic gas demand requirement supply (NGDRS) curve for the allocation of domestic gas delivery obligation applicable to lessees.

(3) The domestic gas demand requirement supply curve shall be determined by the price of the gas supply to the domestic market in accordance with paragraph 2(a)(iii) of the Third Schedule to the Act.

(4) A lessee shall provide, prior to February 1st of every year, the domestic gas demand requirement supply curve in \$/MMBtu and \$/Mscf, for the lease based on the proved developed producing reserves and the reserves provided in regulation 3(3) of these Regulations.

(5) The domestic gas demand requirement supply curve shall be constructed on the total hypothetical proved reserves that is commercial, at each price level and in such a manner that the —

- (a) cheapest classes of hypothetical proved reserves are found at the lowest price level ; and
- (b) highest cost class included in the total less costly reserves are found at the highest price level.

(6) A lessee shall, in determining the commercial value of the proved gas deliveries, consider the total revenue from the sale of natural gas, natural gas liquid and condensate, including the values for —

- (a) raw gas price expected to be received based on the aggregate gas prices ;
- (b) natural gas liquids included in the raw gas ; and
- (c) separately produced natural gas liquids and condensate.

(7) Where a lessee sells its marketable natural gas at the exit of gas conditioning or gas processing plant, the lessee shall consider the applicable tariffs related to transport, conditioning and processing.

(8) Where volume is included in non-producing or undeveloped reserves, connected, or not connected, a lessee shall submit relevant information with a declaration acceptable to the Commission, that such reserves shall be produced on a voluntary basis under a domestic gas delivery obligation.

(9) In addition to subregulation (8) of this regulation, the Commission may require the lessee to carry out additional work pursuant to section 110(5) of the Act and these Regulations

(10) A lessee shall provide to the Commission, each level of reserves pursuant to sub-regulation (4) of this regulation, based on the estimated production profile with time lines acceptable to the Commission for the execution of work in accordance with section 110(5) of the Act.

(11) Where the Commission is of the opinion that a lessee under-estimated the volume of commercially supplied domestic gas at particular price levels, the Commission shall require the lessee to provide detailed cost and production data to ascertain the discrepancy in the levels submitted.

(12) The Commission may carry out studies pursuant to sections 7(*dd*) and 8(*b*) of the Act, to verify the domestic gas demand requirement supply curve underestimated and the Commission may adjust supply curve and allocate the domestic gas delivery obligation accordingly and oblige the lessee to supply volume allocated pursuant to section 110(1)(*b*) of the Act.

(13) Where a lessee fails to supply volume allocated pursuant to section 110(1)(*b*) of the Act, the Commission shall invoke the penalties provided under section 110(8) of the Act against such lessee.

Allocation of the domestic gas delivery obligations.

**5.—**(1) The Commission shall upon receipt of domestic gas demand requirement supply curve from lessees, aggregate the curves to a national supply curve.

(2) The Commission shall identify on the supply curve the lowest level for the domestic gas supply price for which the total domestic gas demand requirement for the power, commercial and gas based industrial sectors, shall be supplied, taking into account the production profiles of the proved developed producing reserves and the profiles in regulation 4(10) of these Regulations relating to domestic gas supply price, the established domestic gas supply price shall be provided to Authority for its base price determination.

(3) The Commission —

(*a*) shall order the allocation of the domestic gas delivery obligation in the sequence of the applicable proved reserves ranking from the lowest to the highest domestic base price capped by the domestic gas supply price ; and



(b) may use an allocation formula that incorporates an efficiency factor, reserves, and flaring volume to determine allocation to a lessee, having regards for efficiency factor which essentially account for constraints related to availability and proximity to major transport trunk lines, including OB3, AKK and ELPS.

(4) The Commission shall inform the Authority and the domestic gas aggregator prior to March 15th of each year of the domestic gas supply price and the allocation of the domestic gas delivery obligations to lessees as well as the allocation sequence pursuant to subregulation (3) of this regulation and report the proved developed producing reserve volume and related production level already under contractual arrangements.

6.—(1) Except as provided under section 110(10) of the Act, a lessee who fails to comply with the domestic gas delivery obligations under the Act and these Regulations, shall incur a penalty of US\$3.50 per MMBtu of gas not delivered.

Non-compliance by a lessee to gas delivery obligations.

(2) Where a lessee has signed a gas purchase and sale agreement with a wholesale supplier of the strategic sector, the penalty payable to the Commission for failure to deliver such gas shall not be less than the amount specified in subregulation (1) of this regulation.

(3) Where the —

(a) failure of a lessee to deliver complete volume of domestic gas delivery obligation is attributable to any of the reasons specified under section 110(10) of the Act, the Commission shall, within 90 days of notification, investigate the veracity of the claim of the lessee ; and

(b) Commission fails to investigate within 90 days, the lessee shall be deemed to have met the domestic gas delivery obligation and the domestic gas delivery obligation shall be adjusted.

(4) Where the Commission ascertains the veracity of the claim of the lessee, the domestic gas delivery obligation shall be adjusted until the issue is resolved within the timeframe stipulated by the Commission and the lessee shall not be held liable for failure to supply the required volume during the period.

7.—(1) Where the Commission allocates to a lessee, volume of proved developed non-producing reserves, which are connected, the Commission may require a lessee to complete or recomplete any well that is required to sustain the production related to the domestic gas delivery obligations.

Work requirements under subsection 110(5) of the Act.

(2) Where the Commission allocates to a lessee, volume of proved undeveloped reserves, which are connected, the Commission may require a lessee, to drill a new well or deepen existing wells or recomplete wells in the field so as to sustain production related to domestic gas delivery obligations.

(3) Where the Commission allocates to a lessee, volume of proved developed non-producing reserves, which are not connected, in addition to the works pursuant to subregulation (1) of this regulation, the Commission may require a lessee to construct a connecting gas transportation pipeline to an existing gas conditioning plant, gas processing plant, gas transportation pipeline or gas transportation network with spare capacity.

(4) Where the Commission allocates to a lessee, volume of proved undeveloped reserves, which are not connected, in addition to the works pursuant to sub-regulation (2) of this regulation, the Commission may require a lessee to construct a connecting gas transportation pipeline to an existing gas conditioning plant, gas processing plant, gas transportation pipeline or gas transportation network with spare capacity.

(5) Where there is no spare capacity available in the gas infrastructure, the Commission, may encourage a lessee to invest in the construction and operation of additional gas infrastructure, in consultation with the Midstream and Downstream Gas Infrastructure Fund.

(6) Where a lessee uses significant volume of field use resources for energy use in a field and the Commission is of the opinion that replacement of such field use energy with renewable energy is commercial, the Commission may encourage investment in renewable energy and operation of such renewable resources to increase the volume of natural gas available for the domestic gas delivery obligations.

#### PART III — MISCELLANEOUS PROVISIONS

Submission  
of purchase  
orders and  
agreement.

8. A lessee shall submit to the Commission existing and additional gas purchase orders and sales agreement before February 1st of each year.

Interpretation.

9.—(1) In addition to the definitions contained in section 318 of the Act, the following definitions shall apply to these Regulations.

(2) In these Regulations, —

“*Act*” means Petroleum Industry Act, No. 6. 2021 ;

“*AKK*” means Ajaokuta-Kaduna-Kano gas pipeline ;

“*Btu*” means British Thermal Unit ;

“*Connected Tier 1, tier 2 and tier 3 gas*” means natural gas that is connected to gas infrastructure with spare capacity or with anticipated spare capacity as established through acceptable industry methods by the Commission during the current year ;

“*Dollar*” or “*\$*” or “*US \$*” or “*US Dollar*” means United States Dollar ;

“*domestic base price*” is the price for marketable natural gas determined pursuant to the Third Schedule to the Act ;

“*domestic gas demand requirement*” means the gas demand determined pursuant to section 173(2) of the Act ;

“*domestic gas demand requirement supply curve*” means the supply curve determined pursuant to the Act and regulation 4 of these Regulations ;

“*domestic gas supply price*” means the price determined pursuant to the Act and regulation 4(3) of these Regulations ;

“*ELPS*” means Escravos-Lagos Pipeline System ;

“*field use resources*” means natural gas resources that are planned for energy use in the field or for re-injection for the purposes of enhancing recovery of petroleum ;

“*flaring resources*” means natural gas resources that are planned for flaring after production in the field, prior to passing the measurement point ;

“*gas conditioning*” means the treatment of raw gas through dehydration, nitrogen removal, hydrogen-sulfide removal, carbon-dioxide removal or other similar processes, but not including natural gas liquids removal or fractionation, with the purpose of producing marketable gas or raw gas suitable for transportation to a gas processing plant or for sale or delivery to the market ;

“*gas conditioning plant*” means a plant dedicated to gas conditioning ;

“*gas processing*” means the processing of raw gas for the purpose of producing marketable natural gas, natural gas liquids and plant condensates, including processes related to natural gas liquids removal and fractionation, and includes plants for the extraction of ethane ;

“*gas processing plant*” means a plant dedicated to processing of gas ;

“*low-Btu natural gas*” means natural gas with a Btu content lower than the minimum for marketable natural gas and which may also result in the production of marketable natural gas through gas conditioning and possible subsequent gas processing ;

“*low-Btu resources*” means natural gas resources consisting of low-Btu natural gas ;

“*low estimate marginal contingent resources*” means contingent resources, estimated to exist with reasonable certainty and where a probabilistic methodology would be applied that the probability is 90% that the actual volume recovered would be higher than the low estimate and for which it is estimated that under somewhat lower costs and higher prices, the resources would be commercially recoverable ;

“*OB3*” means Obiafu-Obrikom-Oben gas pipeline ;

“*proved reserves*” are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from

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known reservoirs and under current economic conditions, operating methods, and government regulations, which is categorised as developed or undeveloped ;

“*proved developed reserves*” are proved reserves expected to be recovered from existing wells including reserves behind pipe, which is sub-categorised as producing and non-producing ;

“*proved developed producing reserves*” are proved developed reserves which are expected to be recovered from completion intervals, which are open and producing at the time of the estimate ;

“*proved developed non-producing reserves*” are proved developed reserves which include shut-in and behind pipe reserves —

(a) shut-in reserves are expected to be recovered from —

(i) completion intervals which are open at the time of the estimate but which have not started producing,

(ii) wells, which were shut-in for market conditions or pipeline connections, or

(iii) wells not capable of production for mechanical reasons,

(b) behind pipe reserves are expected to be recovered from zones in existing wells, which may require additional completion work or future recompletion prior to the start of production ;

“*proved undeveloped reserves*” are proved reserves which are expected to be recovered —

(a) from new wells on undrilled acreage,

(b) from deepening existing wells to a different reservoir, or

(c) where a relatively large expenditure is required to —

(i) recomplete an existing well, or

(ii) install production or transportation facilities for primary or improved recovery projects ;

“*strategic sectors*” means in relation to marketable natural gas purchases, wholesale customers of the following sectors the —

(a) power sector,

(b) gas based industries, consisting of industries using gas as feedstock or industrial raw material, and

(c) commercial sector, consisting of industries, as may be determined by the government, which use gas as an energy source ;

“*tier 1 gas*” is natural gas classified as Tier 1 in the Third Schedule to the Act ;

“*tier 2 gas*” is natural gas classified as Tier 2 in the Third Schedule to the Act ;

“*tier 3 gas*” is natural gas classified as Tier 3 in the Third Schedule to the Act ; and

*“transport tariff”* means a tariff determined for transporting petroleum, petroleum liquids or petroleum products as determined pursuant to the Act;

**10.** These Regulations may be cited as the Domestic Gas Delivery Citation.  
Obligation Regulations, 2022.

## NATURAL GAS RESERVE CLASSIFICATION

*for marketable natural gas, NGL and plant condensate*

## PROVED RESERVES

*Proved Developed Producing Reserves*

- (1) Associated Natural Gas —
  - (a) gas being exported and free market ; and
  - (b) gas for the domestic gas demand requirement.
- (2) Non-Associated Natural Gas —
  - (a) gas being exported and free market ; and
  - (b) gas for the domestic gas demand requirement.

*Proved Developed Non-Producing Reserves*

- (1) Associated Natural Gas (Tier 1 and Tier 2) —
  - (a) Gas destined for exports and free market ; and
  - (b) Gas for domestic gas demand requirement —
    - (i) Connected,
    - (ii) Not Connected.
- (2) Non-Associated Natural Gas (Tier 3) —
  - (a) gas being exported and free market ; and
  - (b) gas for the domestic gas demand requirement —
    - (i) Connected,
    - (ii) Not Connected.

*Proved undeveloped Reserves*

- (1) Associated Natural Gas (Tier 1 and Tier 2) —
    - (a) gas being exported and free market ; and
    - (b) gas for the domestic gas demand requirement —
      - (i) Connected,
      - (ii) Not Connected.
  - (2) Non-Associated Natural Gas —
    - (a) Gas destined for exports and free market ; and
    - (b) Gas for domestic gas demand requirement —
      - (i) Connected,
      - (ii) Not Connected.
- Other Resources —*
- (a) Flaring Resources ;
  - (b) Field Use Resources ;

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- (c) Low-Btu Resources ; and
- (d) Low Estimate Marginal Contingent Resources.

MADE at Abuja this 18th day of November, 2022.

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*Commission Chief Executive*  
*Nigerian Upstream Petroleum Regulatory Commission*