



ENERGY FOCUS REPORT Q2 2025



CONTENTS

I. RENEWABLE ENERGY SECTOR

- **Forging the Future of Clean Energy: How Nigeria's Regulatory MOU's are driving Renewable Power Partnerships**
 - **The National Integrated Electricity Policy 2025: Legal Foundations for Nigeria's Transition to Renewable Energy**
-

II. POWER SECTOR

- **A Review and Analysis of the NERC Guidelines on the Registration and Engagement of third-party Collection Service Providers**
 - **A Review and Analysis of the NERC code of Corporate Governance for the Nigerian Electricity Supply Industry**
-

III. OIL AND GAS SECTOR

- **Review of the Nigerian Upstream Petroleum Regulatory Commission Commercial Regulation of 5th May 2025**
- **Review of the Upstream Petroleum Operation (Cost Efficiency Incentives) Order, 2025**



RENEWABLE ENERGY SECTOR

FORGING NIGERIA'S CLEAN ENERGY FUTURE: REGULATORY MOUS AND THE ENERGY TRANSITION PLAN AS CATALYSTS FOR SUSTAINABLE DEVELOPMENT

INTRODUCTION

Nigeria stands at a vital moment in its energy evolution, where ambitious regulatory frameworks and strategic partnerships are converging to reshape the national power landscape. Through the signing of Memorandum of Understanding (MOUs), the Nigerian government is actively fostering renewable energy collaborations aimed at diversifying its energy mix and reducing carbon emissions. Simultaneously, the country's Energy Transition Plan outlines a guideline to lift millions of people out of energy poverty, while steering towards a low-carbon, inclusive economy. Together, these initiatives signal a coordinated approach where policy, private investment, and sustainable development goals align to drive Nigeria's clean energy future, ensuring environmental sustainability and socio-economic empowerment for future generations.

UNDERSTANDING THE ENERGY TRANSITION PLAN (ETP)

The Energy Transition Plan (ETP) signifies Nigeria's commitment to eliminating the dual crises of energy poverty and climate change. It seeks to deliver Sustainable Development Goal 7, which is to ensure access to affordable, reliable, sustainable, and modern energy for all by 2030 and simultaneously attain net-zero carbon emissions by 2060. The plan aims to address energy poverty and promote inclusive economic growth. This plan is deeply rooted in a commitment to balance environmental sustainability with national development goals.

Essentially, the plan is built on three key pillars. First, it prioritises universal energy access, ensuring that all citizens, especially those in underserved rural areas, have reliable and affordable energy. Second, it emphasises a massive scale-up of renewable energy, including solar, wind, and hydro, to reduce dependence on fossil fuels and enhance energy security. Third, the plan focuses on jobcreation and local manufacturing, fostering a green economy that generates employment and builds domestic capacity for energy technologies.

Nigeria's Energy Transition Plan (ETP) aims to achieve net-zero emissions by 2060, a target adjusted from an initial 2050 goal, due to significant financial, social, and technological considerations.

The ETP is driven by several key objectives which includes Providing reliable and modern energy services to all Nigerians; Lifting 100 million Nigerians out of poverty and fostering economic growth through sustainable development; Managing job losses in the oil sector while creating new opportunities in emerging energy sectors;

Positioning Nigeria as a leader in Africa's energy transition, advocating for a fair and inclusive approach that includes natural gas as a "transitional fuel."; Optimizing and aligning government initiatives related to energy transition for a cohesive national strategy.

The ETP provides a detailed framework for emissions reduction across five key sectors responsible for 65% of Nigeria's greenhouse gas (GHG) emissions which aims for an approximate 100% emissions decrease by phasing out diesel/petrol generators. The plan involves an initial expansion of gas generation, followed by a rapid increase in renewables (especially solar PV), and significant investments in energy storage and hydrogen production; targets a nearly 98% reduction in emissions, by shifting from traditional fuels to cleaner alternatives. The short-term strategy focuses on Liquefied Petroleum Gas (LPG), with a transition to biogas and electric cooking after 2030; projects an approximately 97% decrease in emissions through the widespread adoption of Electric Vehicles (EVs) in both passenger and public transport; the oil and gas sector targets an 87% emissions decrease due to declining global fossil fuel demand, reduced flaring, and improved efficiency. The industrial sector aims for a 97% decrease, achieved by promoting natural gas and integrating renewable energy sources.

The ETP estimates an additional cost of approximately \$10 billion annually, totaling around \$410 billion in incremental funding between 2021 and 2060, with a total investment requirement of \$1.9 trillion to achieve net-zero emissions by 2060. Nigeria sought an initial \$10 billion support package for implementation. The Energy Transition Office (ETO), established in 2022, has mobilized over \$3.6 billion in investments to date. Despite this, a significant funding deficit persists, with an estimated annual financing gap of \$10 billion to \$27.2 billion, highlighting a critical challenge in aligning financial resources with the ETP's ambitious goals.

THE ROLE OF REGULATORY MOUS IN DRIVING RENEWABLE ENERGY

Memoranda of Understanding (MOUs) have emerged as powerful instruments in accelerating renewable energy development, particularly in markets where regulatory clarity and investment security are evolving. As "soft law" mechanisms, MOUs do not carry the binding force of contracts, but serve as strategic tools for fostering collaboration between governments, agencies, and private sector actors. In the context of renewable energy, MOUs provide a structured yet flexible framework for public-private engagement, speeding up innovation, investment, and scalable project deployment.

In Nigeria, a series of strategic Memoranda of Understanding (MOUs) and partnerships are actively catalysing on-the-ground implementation of the ETP:

1. **Lagos-GreenPlinth Clean Cookstoves Project:** A significant MOU was signed in June 2025 between the Lagos State Government and GreenPlinth Africa for the distribution of 80 million clean cook stoves across Nigeria, with an initial 6 million to be distributed free in vulnerable communities in Lagos. This initiative aims to drastically reduce harmful indoor air pollution, promote clean energy access, combat deforestation, and is projected to create over 35 million green jobs. It is a scaled-up version of Nigeria's earlier success under a UNFCCC program, demonstrating the potential for local action to contribute to national and international climate goals.

2. **Nigeria Governors' Forum (NGF) & Energy China Renewable Energy Infrastructure MOU:** Signed in April 2025, this MOU between the NGF and Energy China, a major Chinese firm renowned for its work in renewable energy and gas production, aims to enhance energy planning at the sub-national level. The scope includes the deployment of solar, wind, and hydro infrastructure and the establishment of a Nigeria-China Renewable Energy Research Centre to drive innovation, technology transfer, and capacity-building. This partnership is expected to accelerate energy access, support job creation, and attract investment, particularly in off-grid communities.
3. **REA-FCMB Partnership:** A strategic collaboration formalized in June 2025, where the Rural Electrification Agency (REA) and First City Monument Bank (FCMB) launched a ₦100 billion loan facility. This facility, catalysed by \$750 million in World Bank DARES funding, is designed to accelerate electricity access for approximately 2 million households through decentralized renewable energy projects. FCMB will finance up to 70% of approved project costs, while REA will de-risk transactions by domiciling performance-based grant payments into a reserve account, thereby encouraging private sector participation in rural electrification.

A wide array of international partners are actively supporting Nigeria's energy transition:

1. **Sustainable Energy for All (SEforALL) & Global Energy Alliance for People and Planet (GEAPP):** These organizations are crucial partners, supporting the Energy Transition Implementation Working Group (ETWG) through the dedicated Energy Transition Office (ETO), which is housed within the Office of the Vice President.
2. **World Bank:** A significant financier, having invested over \$2 billion in Nigeria's power sector in the last five years and preparing an additional \$1.5 billion commitment. The World Bank supports key initiatives like the Nigeria Electrification Project (NEP) and the DARES project (\$750M).
3. **United Nations Development Programme (UNDP):** Partners with Nigeria to strengthen institutional readiness for carbon market development and addresses policy and regulatory challenges in the mini-grid sector across Africa.
4. **African Development Bank (AfDB):** Supports the Mission 300 initiative, aiming to provide electricity to 300 million Africans by 2030, and is a partner in the Nigeria Electrification Project (NEP) and the Africa Minigrids Program.
5. **International Renewable Energy Agency (IRENA):** Collaborated with Nigeria's Energy Commission on the Renewable Energy Roadmap for Nigeria (REMap), which indicates that renewables could meet 60% of Nigeria's energy demand by 2050.
6. **Germany (KfW Development Bank) & Africa Enterprise Challenge Fund:** Committed €20 million to boost Nigeria's clean energy revolution, focusing on improving energy access, vocational training in renewables, and reducing fossil fuel dependence.

The recent MOUs and project launches demonstrate a dynamic relationship between policy formulation and on-the-ground implementation. These agreements translate high-level policy objectives into concrete, funded projects, indicating a maturing ecosystem where regulatory frameworks are actively catalysing private sector and sub-national engagement.

THE IMPLEMENTATION PROGRESS AND SECTORAL IMPACT

Nigeria's Energy Transition Plan (ETP) shows tangible progress in several key sectors, emphasizing off-grid and decentralized solutions to meet energy access goals and leverage its abundant renewable resources.

Power Sector Transformation: There is rapid growth in off-grid solar, with the Nigerian Electricity Regulatory Commission (NERC) approving nine off-grid generation licenses. Initiatives like the Rural Electrification Agency's (REA) Nigeria Electrification Project (NEP) and Distributed Access through Renewable Energy Scale-Up (DARES) project have provided clean energy to millions, significantly reducing household energy expenditures. The REA aims to deploy 10,000 mini-grids and 5 million solar standalone systems by 2023. The DARES project alone anticipates over 340,000 connections and 47 MW of clean electricity. The NEP has already impacted 7.8 million lives and deployed 94 MW of PV capacity. The ETP also targets a 72% phase-out of diesel generators by 2030, though detailed progress data for 2024 and 2025 is not widely documented.

Clean Cooking Initiatives: Nigeria's Clean Cooking Policy (March 2024) addresses over 95,000 annual deaths from kitchen smoke, targeting 20% clean cooking from electric sources and 54% from LPG by 2030. A June 2025 MOU aims to distribute 80 million clean cook stoves nationwide, with 6 million free in Lagos. These initiatives will significantly reduce harmful indoor air pollution, combat deforestation, avoid 590K tonnes of CO₂e, and improve family economics, by saving money and cooking time.

E-Mobility Advancement: As of early 2025, Nigeria has 15,000-20,000 EVs on its roads, a notable increase. Targets are 7.5% EV penetration by 2025 and 40% by 2050. However, growth has been slower than anticipated due to a policy redirection favouring Compressed Natural Gas (CNG) vehicles, which could impact long-term decarbonisation. The charging infrastructure is nascent, with about 180 stations primarily in Abuja and Lagos as of early 2024. While expansions are planned, the unreliable national grid remains a significant challenge. The 2050 Auto Policy Agenda and National Action Plan for EV Development support EV adoption through incentives like reduced import duties and tax breaks for local production.

Carbon Market Development: Nigeria finalized its Carbon Market Activation Policy in April 2025, aiming to attract up to \$2.5 billion in high-integrity carbon credit investments by 2030. An operational national carbon registry (since 2024) aligns with Article 6 of the Paris Agreement, focusing on forestry, improved cook stoves, renewable mini-grids, and methane reduction projects. Nigeria will revise its Nationally Determined Contributions (NDCs) by September 2025 to embed the new carbon market framework.

Gas Flaring Reduction and Hydrogen Development: Nigeria has achieved a 70% reduction in gas flaring by 2020, moving from the second-highest flaring country in 2008 to the ninth-largest in 2023, with a target to cease flaring entirely by 2030. However, this reduction has not yet significantly decreased overall GHG emissions. Nigeria is positioned to lead Africa's hydrogen economy due to abundant natural gas and solar resources. The

ETP plans for hydrogen production facilities (5 GW by 2040, 22 GW by 2050), with an optimal path involving a phased approach using blue hydrogen initially and scaling green hydrogen as costs decline. Hydrogen infrastructure is at an early stage, hindered by ambiguous regulations, underdeveloped infrastructure, limited financing, and lack of a clear national hydrogen strategy.

CHALLENGES AND FUTURE OUTLOOK

A critical challenge is the substantial annual financing gap of \$10 billion (totalling \$410 billion incrementally by 2060, or \$1.9 trillion overall), with current climate finance flows falling significantly short. High reliance on debt-based investment is a concern given Nigeria's debt burden. Also, the unreliable national grid, frequent outages, and underdeveloped EV charging and hydrogen infrastructure hinder progress; frequent policy changes and inadequate regulatory frameworks for new technologies create uncertainty for investors; significant skill gap in the renewable energy sector, especially for skilled technicians and engineers, requires urgent investment in training programs and high upfront costs of clean technologies and cultural preferences for traditional methods present barriers for many Nigerians.

Despite these challenges, the future holds promising opportunities. The emergence of **the Energy Transition Plan and Regulatory MOUs** provides a new avenue for funding clean energy projects through emissions trading and carbon credit schemes. These mechanisms can motivate sustainable practices, while generating revenue for renewable investments. Moreover, the energy transition is expected to drive **green job creation** across sectors such as construction, manufacturing, and energy services, offering economic benefits alongside environmental gains. With coordinated action and strategic investment, these challenges can be transformed into catalysts for a more inclusive and sustainable energy future.

RECOMMENDATIONS

To accelerate its clean energy transition and achieve sustainable development, Nigeria must enhance policy coherence and stability. This means aligning short-term strategies, like the focus on Compressed Natural Gas (CNG), with long-term net-zero goals, to avoid deterring investment. Consistent policy implementation, regardless of administrative changes, is key to building investor confidence. Furthermore, mobilizing diversified and de-risked financing is crucial to address the significant funding gap. This calls for exploring innovative models like green bonds and debt-for-climate swaps, leveraging international climate finance through de-risking instruments, and mobilizing domestic capital from pension funds and local financial institutions.

Nigeria also needs to accelerate infrastructure development, prioritizing modernization and expansion of the national grid to integrate renewables, and rapidly building out EV charging networks and hydrogen infrastructure. Completing key gas infrastructure projects, like the AKK pipeline, is also vital for the transition period. Simultaneously, investing in human capital and local content is non-negotiable, requiring scaled-up vocational training in renewable energy, e-mobility, and hydrogen; to build a skilled local workforce and reduce reliance on imports. Finally, strengthening multi-stakeholder collaboration among government, private sector,

development partners, academia, and local communities, and optimizing carbon market mechanisms through robust measurement and verification, will ensure projects are sustainable, equitable, and attract essential climate finance.

CONCLUSION

Forging Nigeria's clean energy future requires a bold and coordinated action. Regulatory MOUs and the ETP serve as vital catalysts, laying the foundation for sustainable development by aligning policies, attracting investment, and enabling a more resilient energy system. With consistent implementation, these tools can accelerate Nigeria's shift to a cleaner, more inclusive energy future.

THE NATIONAL INTEGRATED ELECTRICITY POLICY 2025: LEGAL FOUNDATIONS FOR NIGERIA'S TRANSITION TO RENEWABLE ENERGY

INTRODUCTION

On 5 May 2025, the Federal Executive Council, approved the National Integrated Electricity Policy (NIEP) as mandated by Section 3 of the Electricity Act 2023, the Policy establishes a statutory framework for integrating renewable energy into the national grid, expanding off-grid access, and aligning power sector development with Nigeria's climate goals. The NIEP replaces the outdated National Electric Power Policy (NEPP) 2001, charting a modern legal directive for sector transformation.

The policy is designed to be reviewed every five years. It marks a pivotal step in Nigeria's legal and regulatory commitment to transitioning towards a sustainable and decentralized energy system. Within this context, the NIEP aims not only to stabilize the finances of the Nigerian Electricity Supply Industry (NESI), but to also build a legal foundation for an extensive shift towards renewable energy, cementing Nigeria's commitment to energy transition and climate goals.

KEY HIGHLIGHTS OF THE NIEP 2025

The Policy outlines several objectives and makes recommendations to help actualize the itemised objectives.

1. Universal Access & Least-Cost Planning

The Policy aims to achieve universal electricity access by 2030, with a focus on providing affordable, reliable, and sustainable energy. This involves connecting all Nigerian States at various voltage levels (330kV/132kV/33kV/11kV), which will enable distribution and supply licensees in each State to enter into contracts for bulk supply via the National Wholesale Electricity Market (NWEM).

Currently, 55% of the Nigerian population, lack access to electricity, with the vast majority residing in rural communities. This constitutes the largest energy access deficit in sub-Saharan Africa. While electricity is recognized as a public good, its provision is envisioned within a commercial, market-driven, and private sector-led framework. However, given the significant access deficit, the policy acknowledges the necessity of targeted Federal and State Government interventions, particularly in the form of capital subsidies for infrastructure development, to accelerate electricity access. The Federal Government may also opt to subsidize consumption as part of its pro-poor agenda.

The policy emphasizes aligning renewable energy targets at both federal and state levels, consistent with the Energy Transition Plan (ETP) and Vision 30:30:30. This includes promoting Renewable Energy Feed-in Tariffs (REFIT), net metering, green energy purchase obligations, and developing a robust domestic carbon credits framework. The physical implementation of universal access schemes will be guided by a coherent and harmonized data platform for visibility and planning, utilizing national and sub-national Integrated Resource Plans (IRPs). Version 1 of the National IRP is nearing completion in Q4 2024 and will serve as the basis for the Strategic Implementation Plan (SIP) that accompanies this policy. The policy's explicit reliance on data and integrated planning signifies a critical shift from ad-hoc

investments to data-driven, needs-based planning. This implies that investment decisions will increasingly rely on the availability and credibility of these IRPs and associated data, requiring legal counsel to advise clients not only on regulatory compliance, but also on leveraging these planning documents for market entry strategies, project identification, and due diligence.

2. Healthy Capitalization

Healthy capitalization of the NESI is identified as a fundamental element for establishing a credible and sustainable market. This requires that all licensed entities have access to capital raised either through their balance sheets or via their shareholders on commercial terms. A significant hurdle to achieving this goal is the substantial volume of outstanding debts owed by stakeholders across the electricity value chain, including to gas suppliers. The policy outlines measures to resolve these liabilities, such as factoring or selling some debts, writing off others, and establishing mechanisms for repayment over time. These efforts are intended to facilitate a smooth transition away from the Nigerian Bulk Electricity Trading Company (NBET) and towards the decentralized State markets. The explicit commitment to settling accumulated liabilities and establishing mechanisms for timely payment indicates a recognition that the historical debt overhang has been a major deterrent to attracting high-quality capital, management, and governance capacity. The policy's emphasis on innovative project insurance instruments, rather than traditional sovereign guarantees, further signals a shift towards market-led risk mitigation, which is essential for attracting serious private investors wary of government payment defaults. This shift will likely lead to increased legal advisory work related to debt restructuring, securitization, and the development of new financial instruments, as well as guidance on navigating the transition from sovereign-backed guarantees to market-based risk allocation.

Strengthening payment discipline through robust enforcement and revenue assurance mechanisms is also crucial. The policy underscores the necessity of securing sustainable cash flows through innovative financing mechanisms, cost-reflective tariffs, and potential government support for critical infrastructure projects. The policy acknowledges the unsustainability of electricity subsidies and advocates for cost-reflective tariffs. However, it also recognizes that affordability remains a significant issue for most customers, particularly the 46% of Nigerians living in poverty, which exacerbates access challenges. This creates a tension between commercial viability and social equity. The policy suggests targeted federal and state government interventions to subsidize capital investments in infrastructure development, and potentially federal consumption subsidies, as part of a pro-poor agenda. Law firms advising on energy projects must navigate this delicate balance, structuring deals that are commercially attractive, while incorporating mechanisms for social impact, potentially through blended finance models that combine commercial capital with development finance or government grants. Legal expertise will be vital in designing and implementing these structures and ensuring compliance with Gender Equality, Poverty, and Social Inclusion (GESI) objectives.

Furthermore, clarifying the full extent of States' rights to equity allotments in the DisCos and any additional successor companies created under Section 230(4) of the EA 2023 is a significant legal and commercial undertaking. This involves determining the precise split of shareholding and the transfer of

associated assets and liabilities. Strategic collaboration among various Ministries, such as Finance, Power, and Petroleum, as well as the National Council on Privatization and other regulatory agencies, is deemed vital to enhance public sector accountability and ensure coordinated implementation of policy initiatives and legal provisions.

3. Electricity Reliability

The third core objective is electricity reliability, defined as the assurance that electricity sold is of the contracted quality and supplied with an adequate reserve margin. A primary challenge to reliability within the NWEM is the inconsistent natural gas supply, often due to issues with payment for gas invoices and inadequate gas supply infrastructure. Initiatives to address this include domesticating the trading currency for gas-to-power contracts (using Naira for local components) and fostering collaboration among the Federal Ministry of Power (FMoP), NERC, the Ministry of Petroleum (Gas), and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) to exploit Non-Associated Gas (NAG) resources. This approach recognizes the deep interdependence of fuel supply, infrastructure, and market discipline. The proposed decoupling of gas pricing to use Naira for local components directly attempts to mitigate foreign exchange risk, which has historically exacerbated payment issues and impacted gas supply reliability. Legal advice will be essential in drafting and enforcing these firm contracts and structuring payment assurance mechanisms that move away from sovereign guarantees.

The Transmission Company of Nigeria (TCN)-owned grid currently suffers from manual operations, a shortage of essential ancillary services, frequent blackouts, and equipment obsolescence. The policy calls for significant upgrades, including the integration of modern automated systems like Supervisory Control and Data Acquisition/Energy Management System (SCADA/EMS) and investment in reliable ancillary services. The emphasis on the full liberalization of the ongoing SCADA/EMS project underscores that digitalization is not merely an improvement, but a fundamental prerequisite for a reliable, modern grid capable of handling intermittent renewable energy sources. This creates significant opportunities for legal firms in technology and infrastructure, involving advice on contracts for SCADA/EMS implementation, data security and privacy laws, and facilitating investments in digital infrastructure.

Promoting decentralized energy solutions and energy efficiency is also encouraged to reduce reliance on traditional power sources and optimize overall system performance. States are encouraged to develop their own reliability schemes through Variable Renewable Energy (VRE) grid integration and the promotion of micro and mini-hydropower generation. The EA 2023's provision for private investments in the transmission sub-sector is seen as a major boost for mobilizing financing for both public-private partnerships (PPPs) and private sector project finance in transmission and distribution assets. TCN is incentivized to assess its Performance Improvement Plan (PIP), develop a bankable capital expenditure (capex) plan, and engage financial institutions, prioritizing the completion of existing critical projects

over new ones to relieve current network limitations.

Finally, strengthening payment discipline throughout the NESI, from Gas Supply Agreements (GSAs) to end-user service delivery contracts, is critical. Regulators are urged to collaborate on ensuring contract adherence, implementing effective business continuity measures for defaults, and prescribing penalties for unacceptable behavior.

4. **Redefining the Electricity Market: National, State and Off-Grid Dynamics**

National Wholesale Electricity Market (NWEM): The Electricity Act 2023 moves the Nigerian Electricity Supply Industry (NESI) beyond a bulk buyer model (previously dominated by NBET) towards a transparent, efficient, and competitive electricity market. The NWEM will be regulated by the Nigerian Electricity Regulatory Commission (NERC), while individual State Electricity Markets (SEMs) will emerge as states develop their own markets. NERC will regulate retail and distribution in states without their own markets. The Transmission Company of Nigeria (TCN) will be unbundled to enhance transmission efficiency, separate system operator functions from transmission services, and boost private sector participation.

The transition involves novating existing Power Purchase Agreements (PPAs) to the Energy Exchange, ensuring transparency for the nascent Nigerian Independent System Operator (NISO), implementing real-time trading systems, and attracting significant investment for transmission grid improvement. A crucial shift involves moving from sovereign guarantees to market-led guarantees, with a commitment to negotiate and settle accumulated liabilities, addressing historical financial instability. The NWEM emphasizes investment in transmission infrastructure and technology for system operations, digitized trading, and ancillary services. It aims to create an enabling environment for private investment through clear market rules and an integrated resource plan. The policy seeks to recover installed generation capacity and allow surplus captive generation (minimum 10MW) to be sold to the national grid. Electricity transmission will be open to private investment through Independent Electricity Transmission Network (IETN) operators, classifying these assets as "green investments" to access diverse financing. Payment discipline will be strengthened through firm contracts across the value chain.

State Electricity Markets (SEMs): The Electricity Act 2023 empowers States to operate their own electricity trading mechanisms, promoting competition, efficiency, and universal access at the local level. States can develop their own legal, policy, and regulatory frameworks for electricity within their territories, provided they do not interfere with the NWEM. States face challenges in building capabilities for policy-making, regulatory alignment, infrastructure development, financing, and managing commercial and socio-political factors. Establishing effective State Electricity Regulatory Commissions (SERCs) with capable personnel is critical. Many states have narrow customer bases limiting pricing options, and unlike the Federal Government, they lack sovereign guarantees for market de-risking, relying instead on sound policy and sustainable subsidies. They also assume responsibilities for universal access schemes and consumer protection.

Policies for SEMs aim to attract investment and foster interaction with other SEMs and the NWEM. NERC will collaborate with States for responsibility transfer, including DisCo corporate structure and

technical boundaries. States are encouraged to enforce policies promoting competition, transparency, and consumer protection, ensuring regulatory independence. An intergovernmental body will coordinate principles for regulatory risk reduction, and the functions of the Power Council will be clarified for federal-state coordination. States are encouraged to develop Integrated Resource Plans (IRPs) for procuring generation capacity, promote private investment in grid modernization, and leverage surplus captive generation (minimum 5MW) for SEM demand. Licensing Electricity Service Companies (ESCOs) will encourage trade, and State Electricity Regulators will drive competition through open access to distribution networks. Clarification of State ownership in jointly owned entities like DisCos and NDPHC is prioritized. Rural electrification policies will be reviewed to recognize the States' role in expanding access, and consumer protection measures will be enhanced.

Off-Grid Markets: Off-grid markets are vital for achieving universal electricity access, especially in remote and underserved areas where grid extension is not commercially viable. These markets operate independently of the national grid, primarily using renewable energy (solar, wind, mini-hydro), and are promoted by the Rural Electrification Agency (REA) to increase access, enhance sustainability, diversify the energy mix, and reduce carbon emissions. The main challenge is ensuring commercial viability for mini-grid operators while maintaining affordability for communities. This requires innovative financing models, robust policy frameworks, and broad stakeholder participation (State Governments, DFIs, private investors, consumer buy-in). Policies aim to reduce capital expenditure (capex) through targeted subsidies, tax incentives, and grants to make tariffs affordable. This environment necessitates clear regulations, reliable data, simplified licensing, transparent funding mechanisms, and collaboration among stakeholders.

Off-grid projects must integrate business models that electrify agricultural productive uses to ensure longevity and economic development. Communities are encouraged to contribute equity (land, labor, capital) to reduce capex and ensure affordability, fostering community ownership and payment compliance. Key policy measures to drive the establishment of off-grid electricity markets include establishing clear regulatory frameworks to standardize solutions, ensuring cost-reflective and transparent tariffs, and utilizing subsidies and tax incentives are crucial. Data-driven investments, integration of off-grid development into State IRPs, and coordinated stakeholder approaches are emphasized. States should leverage global climate financing for off-grid investments, direct economic development projects to remote areas, and strengthen incentive structures like Renewable Energy Feed-In Tariffs (REFIT) and Net Metering.

5. Energy Transition and Climate Change:

Nigeria is actively transforming its energy sector to address climate change and achieve national development goals.

Nigeria's climate commitments and the Energy Transition Plan (ETP): Nigeria is committed to global climate agreements like the **UNFCCC, Kyoto Protocol, and Paris Agreement**. In 2021, it pledged to reduce **greenhouse gas (GHG) emissions by 20% unconditionally and 47% with international support by 2030**. This commitment spans seven key sectors: agriculture, power, oil and gas, transport, industry, waste, and water. National policies reinforce these goals:

- The **Climate Change Policy and Response Strategy (2012)** promotes a low-carbon, climate-resilient economy.
- The **Climate Change Act 2021** establishes a legal framework to achieve **net-zero emissions by 2060**, ensuring financial and environmental accountability.

The **Nigeria Energy Transition Plan (ETP)**, launched in 2023, is a comprehensive roadmap for low-carbon development across five areas: Power, Clean Cooking, Transport, Industry, and Oil and Gas. This ambitious plan aims to impact over 65% of Nigeria's emissions, requiring over **\$1.9 trillion to reach net-zero by 2060**, with an additional **\$410 billion (approximately \$10 billion annually)** above projected spending. The ETP has a dual objective: **universal energy access by 2030 and net-zero emissions by 2060**. This highlights that Nigeria's energy transition is not just about reducing emissions, but also about **lifting "100 million Nigerians out of poverty and driven economic growth."** Renewable energy is central to these plans. The **National Renewable Energy and Energy Efficiency Policy (NREEEP) 2015** set specific generation targets for hydro, solar, and wind. The **Long-Term Low Emission Development Strategy (LT-LEDS)** targets a minimum **60% renewable energy mix by 2060**, including significant contributions from various renewable sources and nuclear.

Opportunities in Renewable Energy, Carbon Markets, and Clean Technologies: The power sector contributes 27% of Nigeria's carbon emissions. The ETP projects a need for **250GW of installed solar generation capacity** to achieve net-zero targets, with significant deployment of Distributed Renewable Energy (DRE) for universal electricity access by 2030. Nigeria's abundant sunshine makes it ideal for solar investment. Significant progress has been made in the off-grid sector through initiatives like the **Nigerian Electrification Project (NEP)** and the **Nigeria Distributed Access through Renewable Energy Scale-up (DARES) project**, which have improved electricity access for millions.

Electrification also offers cross-sector synergies for decarbonization:

- **Transport:** The largest CO₂ emitter (60% of national emissions), the sector is transitioning to **electric vehicles (EVs) and e-buses**. Policy moves like duty waivers for EV imports and financing schemes for e-bus assembly are crucial.
- **Clean Cooking:** With 161 million Nigerians lacking access to clean cooking solutions, the ETP prioritizes a shift to **electric cooking**, which can reduce emissions by 30% and prevent health issues.

The **Carbon Markets Opportunity** is emerging as a significant financial mechanism. The **Africa Carbon Market Initiative (ACMI)** and Nigeria's **National Carbon Market Activation Plan (NCMAP)** aim to develop carbon markets and potentially carbon taxes, generating revenue for energy sector reinvestment. This presents opportunities for legal practitioners in advising on carbon market participation, transactions, compliance, and tax implications.

Regulatory Frameworks for Emissions Management: Nigeria has implemented proactive measures for emissions management in the oil and gas sector. The **Nigerian Upstream Petroleum Regulatory Commission (NUPRC)** has developed guidelines for managing fugitive methane and greenhouse gas emissions, including the **Leak Detection and Repair (LDAR) policy**. The **Ministry**

of Environment launched a **National Methane Emissions Reduction Strategy** in September 2023. Climate change and energy transition policies emphasize a **"people-centered approach"**, ensuring equitable access, industrial growth, and decarbonisation. This requires collaboration between federal and state authorities, investment in renewable energy, and access to grant and concessional finance. Enhancing data management platforms to monitor emission reductions against NDC targets is also crucial. The **Electricity Act 2023** grants autonomy to State Governments, offering significant scope to accelerate clean energy development across the electricity value chain and leverage cross-sectoral opportunities in transportation and clean cooking.

6. Human Resource Capability Development: Building a Skilled Workforce

The Nigerian Electricity Supply Industry (NESI) faces significant human resource challenges that hinder its growth and competitiveness. These challenges are categorized into technical, non-technical, funding, and legal/regulatory issues, stemming largely from the lack of a comprehensive Capacity Development Framework and inadequate funding. To address these, the NIEP-SIP proposes several strategic policy statements:

Technical Skills Development & Enhancement: Implement continuous professional development and specialized training, emphasizing multi-skill competencies and gender equality; Formalize on-the-job training for skills acquisition and certification. Integrate State Electricity Markets (SEMs) into the Capacity Building Framework for alignment; Develop knowledge transfer and mentorship programs to preserve institutional knowledge; Establish a Power Industry Research and Incubation Centre for innovation; Create platforms to integrate learning, expand training facilities, and align educational institutions' courses with sector needs.

Non-Technical Skills Development & Enhancement: Introduce incentive programs, career advancement opportunities, and competitive compensation to attract and retain talent; Foster continuous learning through workshops, webinars, and e-learning, focusing on soft skills like leadership and teamwork.

Legal and Regulatory Compliance: Align HR development with regulatory requirements and national energy policies; Implement robust monitoring and evaluation of training programs; Ensure federal and state regulatory authorities support human capital development and incentivize private sector investment; Establish a robust Regulatory Framework for Certification defining employee certification criteria and skill standards.

Stakeholder Engagement and Strategic Partnerships: Establish collaborations between industry and academia for curriculum development, research, and internships; Form strategic partnerships with international power sector organizations for knowledge transfer; engage government agencies, private sector, and the public, encouraging Public-Private Partnerships (PPPs) for capacity development funding.

Workforce Planning and Capacity Building: Develop a comprehensive framework to anticipate future skill needs and address current gaps; Include both technical and non-technical staff in capacity-building initiatives; Implement a power sector mentorship scheme for employee development and

succession planning; Deploy predictive analytics for future skill needs and establish a centralized talent management system; Invest in continuous professional development programs and state-of-the-art training facilities at NAPTIN.

Promoting Gender Equality and Inclusivity: Ensure capacity development programs encourage equal opportunities for women and marginalized groups, including gender sensitivity training, mentorship, and targets for female leadership.

Sustainable Practices and Environmental Stewardship: Emphasize these practices across the power sector value chain in programs.

Information and Communication Technology (ICT) and Technology: Make ICT an essential requirement for work and capacity building within NESI; Invest in state-of-the-art training facilities and simulation technologies at NAPTIN and other accredited centers.

Funding and Financing: Government must prioritize continuous capacity development funding; Implement systematic Monitoring and Evaluation (M&E) for performance assessment and policy compliance.

Overall, a holistic, strategic, and sustainable alignment among stakeholders is imperative to resolve these complexities and enhance the sector's human resource capabilities.

7. Local Content Management, Research, and Development: Fostering Domestic Capacity

Nigeria's power sector aims for self-sufficiency and economic growth by enhancing local content, research, and development. This strategy seeks to decrease reliance on foreign expertise and imports, building domestic capabilities across the entire electricity value chain. Historically, Nigeria's power sector was dominated by foreign interests. While the **Electricity Act 2023 (Section 228)** mandates the Nigerian Electricity Regulatory Commission (NERC) to enforce local content regulations (from 2014) to promote the use of Nigerian resources, experts, and enterprises, significant challenges persist. Despite these regulations, foreign entities still largely control technology, project implementation, and equipment supply for major power projects, with limited local impact. This reliance on foreign involvement leads to: **High impact of foreign exchange (FX) rates** on tariffs (MYTO), driving inflation and affecting competitiveness; **Repatriation of funds**, diverting revenue and hindering local investment and capacity building; **Vulnerability to global shocks**; **Limited local community engagement**, leading to vandalism and poor maintenance of infrastructure; **Weak regulatory enforcement**, resulting in insufficient technology transfer, inefficient partnerships, and inadequate business development incentives. The NIEP-SIP proposes several policies to foster a vibrant and sustainable market for local content, research, and development:

Clear Local Content Definition and Incentives: Clearly define local content with specific parameters, prioritizing Nigerian-manufactured items and establishing measurable indices; Mandate minimum percentages for locally sourced materials, equipment, and services; Provide incentives such as **tax breaks, duty exemptions, and result-based tax credits**; Reduce duties and tariffs on imports that enable local manufacturing in the electricity sector.

Monitoring and Technology Transfer: Ensure effective monitoring of local content compliance and

regular policy assessments; Re-establish the **NESI Nigerian Content Consultative Forum (NNCCF)**; Facilitate **technology and knowledge transfer** through collaborations, international partnerships, and enforcement of technology transfer clauses in foreign contracts (referencing NIPC and NOTAP Acts); Consult sub-nationals for shared interests.

"Self-Reliant and Made in Nigeria" Initiative: Lead an initiative to build local capacity in manufacturing electrical equipment, transformers, and renewable energy components, supported by government financing; Integrate, adopt, and implement NERC's 2014 Regulation on National Content Development; Give **first consideration to Nigerian companies** in electricity contracts and projects, similar to the oil and gas sector; Create **production and export-linked incentives** for key areas like renewable energy, generation, transmission, and distribution, in collaboration with the Ministry of Trade and Investment; Prioritize bids with the highest Nigerian content that meet technical requirements.

Digital Transformation and Strategic Planning: Propose a **"Digital Nigeria" program** to boost digital infrastructure and smart grid technology, investing in smart grids and supporting local content in digital energy; suggest a **10-year strategic roadmap for Nigerian Content in the NESI**, akin to the oil and gas sector; Require foreign companies to submit a **Nigerian Content Plan to NERC** for approval, with NERC publicly reporting on compliance.

Funding and Collaboration: Establish a **dedicated fund for local content development**, managed through a public-private partnership; Direct investments towards **technology parks/clusters** to foster collaboration among manufacturers and service providers; Direct communities to form **electricity supply infrastructure management committees** (led by youth and women) for ownership, accountability, and remuneration for reporting faults.

8. Commercial, Legal, and Regulatory Framework for Implementation

The **Electricity Act 2023 (EA 2023)** reshapes the Nigerian electricity sector into a two-tier system: a **National Wholesale Electricity Market (NWEM)** and **State Electricity Markets (SEMs)**.

Institutional Arrangements: The National Wholesale Electricity Market (NWEM): The EA 2023 codifies existing laws and provides mandates for contemporary issues like climate resilience, energy transition, and decentralization. The Federal Government, through the Ministry of Power, will focus on enabling the NWEM. NERC's effective execution of its principal function (Section 34(1)(a) of EA 2023) in collaboration with stakeholders is crucial for NWEM success. A viable NWEM requires effective market mechanisms for dispatching generation units, long-term generation adequacy, and mitigation of local market power. Federal policy will prioritize a market-driven, commercially viable regulatory framework, full gas utilization, rapid renewable energy integration, financial stability, and encouraging states to manage consumer protection and distribution.

Anticipated Hurdles and Risks in Establishing the NWEM: A **Steering Committee** (FMoP, NERC, NBET, ISO, TSPs, DisCos, Gencos, State Regulators, etc.) will be established for 1-2 years to drive the transition, set effectiveness conditions, and recommend mitigation measures. **Significant infrastructure enhancements** (especially distribution and transmission) are needed, with facilitated

private sector participation. The EA 2023 encourages private investment in transmission. **TCN** will assess its Performance Improvement Plan (PIP) and develop a bankable capital expenditure (capex) plan, seeking innovative financing. New projects will be discouraged unless critically needed. **Bankability** will be enhanced by clear cost recovery guidelines and innovative project insurance, shifting from sovereign guarantees to market-led guarantees (requiring sophisticated legal expertise). **Poor gas supply** (due to late payments and inadequate infrastructure) will be addressed by strengthening payment discipline across the NESI. Regulators will collaborate to enforce contracts and penalize defaults. **Resetting the underlying energy value chain** is non-negotiable, starting with settling accumulated liabilities through the Nigerian Electricity Liability Management Company (NELMCO). **Gas supply optimization** will involve enhanced payment assurance, voluntary supply with appropriate pricing, and long-term contracts. Gas pricing will be decoupled, with local components priced in Naira. **Integration of renewable energy** requires a clear plan for the full liberalization of the ongoing SCADA/EMS project, as the current grid cannot wheel intermittent RE without it.

Institutional Arrangements: State Electricity Markets (SEMs): The EA 2023 provides for SEMs as the other tier. NERC will collaborate with State Governments to develop an action plan for SEM establishment, guiding on State autonomy, market designs, NERC's preparatory orders for DisCos, State Integrated Resource Plans (IRPs), capacity building for State regulators, and transition plans. States are expected to communicate their stance on taking over electricity market regulation. Where a State transitions, four critical responsibilities must be managed: **Empowerment of State Governments** with information and guidance via an EA 2023 Transition Forum and online repository; **Tariffs, market design, and market development** with full State government participation; **Security of assets and infrastructure** through formal declaration as critical national infrastructure by both National and State Legislatures, clear responsibilities, and embedding surveillance sensors; **Human capacity development** for credible market operation, including State IRPs linked to the National IRP.

Law firms will need to advise clients on navigating this multi-jurisdictional regulatory environment. The electricity distribution sub-sector and consumer protection will be wholly regulated by the States. NERC will transfer these responsibilities to State regulators. States should prioritize consumer protection through laws, transparency, collaboration, consumer bills of rights, awareness, feedback, and direct consumer involvement in asset monitoring. Recommended actions for States include: reviewing metering gaps, encouraging payment discipline via technology, mandating monthly performance reports, and enacting laws for community groups to manage infrastructure and address vandalism/theft (with remuneration). NERC will lead engagement with States to develop a multi-tiered market framework, leveraging its experience. The Federal Ministry of Power will consult with NERC and States to issue policy directives, including convening the intergovernmental electricity regulatory working group and engaging the Nigeria Governors' Forum (NGF) to endorse the National Power Council and the working group for standardizing policymaking and regulation. While some States may establish joint/regional markets, proper plans for a seamless transition from the NBET/single-buyer model to

the wholesale electricity market are crucial, including bilateral contracts simulation around the ISO and TSP. A formal mechanism, like the National Power Council, is imperative for managing interfaces between State electricity markets.

Periodic Policy Reviews and Consequential Amendments of Federal Legislation: The **National Integrated Electricity Policy and Strategic Implementation Plan (NIEP-SIP)** adopted an unorthodox method due to past neglect of formal policy reviews. Section 3(1) of the Electricity Act directly mandates the Federal Government to prepare and publish the NIEP-SIP within one year of the Act's commencement. The EA 2023 was necessitated by the need to codify existing electricity sector policies and give statutory effect to the constitutional amendment allowing states to establish their own electricity markets. The NIEP-SIP is expected to clarify stakeholder roles in National and State electricity markets and define initiatives to achieve strategic objectives. Regular policy reviews are crucial for effective governance in Nigeria's dynamic electricity sector to address evolving challenges and opportunities.

CONCLUSION

The NIEP provides a framework to dismantle monopolistic structures, particularly in power distribution and generation, which have long constrained market efficiency. By encouraging competition and private-sector participation, the policy opens the door for new entrants and innovations in power solutions tailored to local needs. States will be empowered to design their own electricity markets within a national coordination system, which can lead to quicker, more localized responses to energy demands.

Despite all these, the issue of the potential risks with the implementation of the Policy must be addressed. Nigeria overtime enacts laws that have brilliant provisions but implementation and enforcement has always been a constant weakness and the downfall of most of the laws. These risks have consistently dogged the pace and quality of sector reform; causing the NESI to lack quality long-term capital; in turn driving the Federal and State public sectors to continue to be involved in funding the sector through poorly administered subsidies, grants and loans.

It is hoped that the itemised recommendations will be duly taken into consideration by the appropriate authorities.

POWER SECTOR

A REVIEW AND ANALYSIS OF THE NERC GUIDELINES ON THE REGISTRATION AND ENGAGEMENT OF THIRD-PARTY COLLECTION SERVICE PROVIDERS

Overview of NERC Guidelines on Registration and Engagement of 3rd Party Collection Service Providers

In response to persistent challenges in revenue collection challenges within the Nigerian Electricity Supply Industry (NESI), the Nigerian Electricity Regulatory Commission (NERC), pursuant to its mandate under section 226 of the Electricity Act 2023 issued the **Guidelines on the Registration and Engagement of Third-Party Collection Service Providers**, which became effective from the 27th May 2025. These guidelines aim to standardize the engagement of agents by electricity distribution companies (DisCos) for the collection of payments from electricity consumers, while promoting efficiency, transparency, and accountability in billing and revenue collection while protecting consumer rights.

Key Requirements for Registration as a 3rd Party Collection Service Provider

To register as a third-party collection service provider, applicants must meet requirements like being a registered company showing tax compliance, demonstrating technical capability proving financial soundness, and having no record of regulatory breaches or criminal activities. To be eligible for registration, a prospective third-party collection service provider applicant must several requirements which include:

- i. **Corporate Registration:** The applicant must be a registered company with the Corporate Affairs Commission (CAC) of Nigeria.
- ii. **Tax Compliance:** Evidence of current tax clearance and registration with relevant financial authorities is required.
- iii. **Technical Capability:** The applicant must demonstrate the ability to manage collections, maintain secure interoperable payment platforms, and integrate with DisCo systems.
- iv. **Financial Soundness:** A clean financial record and evidence of solvency are mandatory.
- v. **Regulatory Compliance History:** Applicants must not have a record of regulatory breaches or involvement in criminal activities.

Engagement Process for 3rd Party Collection Service Providers

The engagement process involves submitting a proposal to the distribution company, undergoing due diligence, signing a service agreement and notifying the regulatory commission. This prevents unlicensed or informal agents from operating.

The engagement process involves:

- i. **Application Submission:** Prospective service providers submit their proposal directly to the electricity distribution company (DisCo).
- ii. **Due Diligence:** The DisCo verifies the service provider's qualifications and references.
- iii. **Execution of Agreement:** A formal service-level agreement (SLA) outlining the scope, commission structure, obligations, duration and performance terms is executed.
- iv. **Regulatory Notification:** The DisCo must notify NERC of all third-party engagements and obtain necessary clearance.

This engagement process promotes transparency and prevents the emergence of unlicensed or informal revenue agents.

Analysis of the Guidelines and Implications for Electricity Distribution Companies

For distribution companies, the guidelines offer a structured approach to revenue assurance, but also impose new compliance burdens. Key implications include:

- i. **Enhanced Revenue Assurance:** By outsourcing collections, DisCos can focus on core operations and optimize cash flows through streamlined collections, while improving payment cycles.
- ii. **Oversight Obligations:** DisCos remain responsible for third-party compliance and must ensure robust supervision.
- iii. **Liability Exposure:** Misconduct by agents may expose the DisCo to regulatory sanctions, thus necessitating strict controls and requiring strengthened vendor risk management protocols.

These implications compel DisCos to re-evaluate their vendor management and oversight structures.

Compliance and Monitoring of 3rd Party Collection Service Providers

The guidelines mandate DisCos to establish robust compliance and monitoring frameworks to prevent leakages, fraud and misappropriation of customer payments. The Guidelines require DisCos to implement strong oversight frameworks including:

- i. **Real-time Monitoring:** Collection service providers must use digital platforms that enable real-time tracking of transactions.
- ii. **Regulatory Reporting:** DisCos are required to file periodic compliance reports to NERC.
- iii. **Audit and Investigative Access:** NERC reserves the right to inspect the records and systems of collection of all engaged service providers.

This framework seeks to reduce leakages, fraud, and misappropriation of customer payments.

Role and Responsibilities of 3rd Party Collection Service Providers

Third-party collection providers are responsible for collecting payments, promptly remitting funds to the distribution company providing customer service support and protecting customer data privacy. They are

prohibited from disconnecting customers or enforcement activities.

Third-party collection providers act as intermediaries between customers and DisCos. Their responsibilities include:

- i. **Customer Payment Collection:** Accepting and processing payments via authorized channels.
- ii. **Remittance of Funds:** Prompt and accurate remittance of collected funds to the DisCo.
- iii. **Customer Service Support:** Providing receipts and resolving basic billing inquiries.
- iv. **Compliance with Data Privacy:** Ensuring customer data Protection in compliance with the Nigeria Data Protection Act (NDPA).

The service providers are expressly prohibited from carrying out disconnections or enforcement activities, which remain the exclusive sole responsibility of the DisCos.

Impact of the Guidelines on Electricity Consumers

For consumers, the guidelines offer potential benefits like increased payment channels, reduced risk of fraud from unauthorized agents and improved service delivery from distribution companies. However, the extent benefits depend heavily on the transparency and professionalism of the engaged service providers. Weak oversight may result in customer dissatisfaction or abuse.

- i. **Increased Payment Channels:** Consumers have more access points for bill payment, including digital and mobile platforms.
- i. **Reduced Risk of Fraud:** Only authorized providers may collect payments, reducing the incidence of illegal agents.
- ii. **Improved Service Delivery:** With outsourced collections, DisCos may improve their customer service turnaround.

Enforcement Mechanisms in the Guidelines

NERC can blacklist non-compliant providers impose fines and sanctions or terminate engagements. This aims to maintain discipline and integrity in revenue collection.

The Guidelines outline enforcement measures to ensure compliance; the Guidelines empower NERC to:

- i. **Blacklist Non-compliant Providers:** Defaulting collection agents may be barred from future engagements.
- ii. **Impose Fines and Sanctions:** DisCos and their agents may face regulatory penalties for breach.
- iii. **Terminate Engagements:** NERC can direct the immediate disengagement of non-compliant or unethical providers.

Compliance Challenges for Implementing the NERC Guidelines

Compliance challenges include:

- i. Limited capacity of DisCos to monitor multiple vendors.
- ii. Inconsistent technology integration between providers and DisCos.
- iii. Weak internal controls in some regions, especially rural areas.

Addressing these challenges may require capacity-building programs, standardized APIs for integration, and stricter procurement vetting processes.

Challenges and Opportunities for 3rd Party Collection Service Providers

Challenges of 3rd Party Collection Service Providers include:

- i. High compliance costs and regulatory expectations.
- ii. Limited margins due to commission caps.
- iii. Reputational risks if DisCos are viewed poorly by customers.

Opportunities:

- i. Expansion of fintech and digital payment platforms.
- ii. Potential for multi-sector utility collection services.
- iii. Strategic partnerships with banks and mobile network operators.

The market for third-party collectors could grow significantly with the right innovation and regulatory support.

The Impact of the Guidelines on Consumer Protection and Debt Collection Practices

The Guidelines strengthen consumer protection by eliminating illegal agents, mandating receipts and dispute mechanisms, and requiring data privacy compliance. However, consumer education and effective grievance redress remain crucial to real impact.

The Guidelines strengthen consumer protection through:

- i. **Elimination of Illegal Agents:** Only verified and registered agents can collect payments.
- ii. **Receipt and Dispute Mechanisms:** Customers are entitled to instant receipts and complaints must be resolved promptly.
- iii. **Data Protection Compliance:** Agents are required to comply with data privacy laws, enhancing consumer trust.

Collection Channels and Approved Rates for Third-Party Collection Service Providers

The NERC Guidelines permit licensed third-party collection service providers to operate through secure and verifiable channels including bank branches, agent banking outlets, mobile money platforms, POS terminals, and web-based or app-enabled payment systems. These channels must be interoperable with DisCo billing systems, provide real-time transaction visibility, and issue electronic receipts to consumers.

Collection service providers are compensated through a commission-based model funded by the DisCos, typically capped between 0.75% and 1.5% of the collected sums. All rates must be negotiated, transparently disclosed to NERC, and reflected in the governing Service Level Agreements. Providers are strictly prohibited

from imposing additional charges on electricity consumers. NERC retains oversight through monitoring, audit rights, and approval of any rate deviations or platform modifications.

Recommendations for Effective Implementation of the NERC Guidelines

- i. Establish a national registry of approved third-party agents accessible to the public.
- ii. Mandate quarterly compliance reports from DisCos detailing agent performance.
- iii. Adopt API-driven integration for payment monitoring and reconciliation.
- iv. Launch public education campaigns on identifying approved agents.
- v. Encourage whistleblower mechanisms to report unauthorized collection activities.

These measures will support NERC's vision of transparent and efficient collections.

As NESI evolves, potential areas for refinement of the Guidelines include:

- i. Inclusion of minimum technology standards for digital integration.
- ii. Periodic licensing renewal based on performance and compliance history.
- iii. Introduction of consumer satisfaction metrics into SLA assessments.

These revisions could help future-proof the framework and accommodate innovation in utility payments.

Conclusion

The NERC Guidelines on Registration and Engagement of Third-Party Collection Service Providers represent a commendable step towards persistent revenue inefficiencies in NESI. By formalizing engagement processes, setting clear standards, and mandating oversight, the Guidelines promote transparency, greater efficiency, consumer protection, and financial discipline. However, the success of this initiative hinges on effective implementation, continuous oversight, robust compliance mechanisms, and an openness to adapt as new challenges and technologies emerge.

A REVIEW AND ANALYSIS OF THE NERC CODE OF CORPORATE GOVERNANCE FOR THE NIGERIAN ELECTRICITY SUPPLY INDUSTRY

Introduction

To improve efficiency, accountability, & transparency in the Nigerian electricity supply sector, the Nigerian Electricity Regulatory Commission (NERC) introduced the **Code of Corporate Governance for the Nigerian Electricity Supply Industry (NESI)** in 2025. The code lays out standards & guidelines for corporate governance practices with the goals of preserving consumer interests, boosting sustainable development in the industry, and fostering investor confidence. It is applicable to both public and private sector participants as well as all organizations engaged in the production, transmission, distribution, and trading of electricity.

The Code addresses the urgent need for improved governance, it represents the Commission's effort to establish governance norms that are tailored to the technical, financial, and regulatory complexities of the industry. By establishing guidelines and expectations for corporate behavior, the code seeks to address and create a more conducive environment for sustainable growth and development within the sector. The code applies to all Licensees in the NESI (generation, transmission, distribution, system operation, trading licensees and independent system operators), applies to both public and private sector licensees.

Key Principles and Objectives of the NERC Code of Corporate Governance

The NERC Code of Corporate Governance is built on four core principles: transparency, accountability, fairness, and responsibility. Transparency ensures that relevant information is disclosed to stakeholders in a timely and accurate manner, allowing for informed decision-making and oversight. Accountability holds directors and management responsible for their actions and decisions, ensuring that they act in the best interests of the company and its stakeholders. Fairness promotes equitable treatment of all stakeholders, including shareholders, employees, and consumers, while responsibility emphasizes the need for ethical conduct and sustainable business practices. The key principles aim to promote ethical business practices, transparency, and accountability within the electricity supply industry.

These principles encompass a wide range of areas, including board composition and responsibilities, risk management, financial reporting, and stakeholder engagement. One of the primary objectives of the NERC Code is to enhance the overall performance and efficiency of electricity companies operating in Nigeria, this is achieved through the implementation of best practices in corporate governance, which are designed to improve decision-making processes, streamline operations, and optimize resource allocation. The Code is guided by several core principles drawn from both national and international best practices:

- i. **Board Effectiveness and Composition:** The Code mandates clear delineation of responsibilities between the board and management, encourages the inclusion of Independent Non-Executive Directors (INEDs), and promotes gender and skills diversity. The code provides robust guidance on the roles of Board structure and independence:
 - a. Boards must include Independent Non-Executive Directors (INEDs), making up at least one-third of board members

- b. The roles between the Board chair and CEO must be separate.
- c. Appointment processes must be merit based, transparent, and aimed at fostering diversity.

Gender and Skills Diversity Requirements

The code promotes gender diversity and functional expertise on boards. Companies are expected to appoint directors with a broad range of skills and encourage gender balanced representation

Role and Responsibilities of the Board Chair and INEDs

The Board chair is required to foster open discussion, ensure board effectiveness, and uphold governance culture. INEDs, on the other hand, are tasked with offering independent judgement free from managerial or shareholder influence.

The independence of the INEDs is defined rigorously to avoid conflicts, they must have no recent financial employment or family ties to the licensee.

- ii. **Accountability and Responsibility:** Boards are expected to uphold fiduciary duties, maintain proper internal controls, and make decisions in the best interest of shareholders and stakeholders.
- iii. **Risk Management and Compliance:** Companies are required to adopt formal risk management frameworks and align business practices with license terms, statutory obligations and sector regulations.
- iv. **Transparency and Disclosure:** Regular disclosures of financial, operational, and governance-related information are emphasized and required to foster stakeholder confidence and regulatory trust in areas such as: Financial reporting, operational performance and governance structures and remuneration. Disclosures must adhere to relevant accounting standards and be accessible to stakeholders.
- v. **Ethical Leadership and Corporate Citizenship:** Board members and senior executives must demonstrate integrity, professionalism, and commitment to the principles of good corporate citizenship. The code calls for zero tolerance for corruption; Transparent procurement processes and sound whistle blower protection mechanisms.
- vi. **Governance of Subsidiaries and Group Entities:** Where holding companies or corporate groups exist, the Code mandates; Effective group-wide governance policies, independent boards for each regulated entity and Parent companies to ensure consistency across subsidiaries.
- vii. **Stakeholder and Community Engagement:** The Code calls for a proactive stakeholder engagement framework. Licensees are required to: Engage regularly with customers, investors, communities, and regulators; Reflect stakeholder views in strategy and Build mechanisms for complaint resolution and performance feedback.

This marks a shift toward inclusive governance, although the absence of consumer board representation remains a noted gap.

The overall objective is to enhance the performance, sustainability, and public trust in the Nigeria's electricity market. By adhering to these principles, companies are expected to cultivate a culture of integrity and professionalism that ultimately benefits all parties involved in the electricity sector.

Additionally, the code seeks to bolster investor confidence by ensuring that companies maintain high standards of transparency and disclosure, thereby creating a more attractive environment for both domestic and foreign investment in the Nigerian electricity supply industry.

Compliance Mechanisms of the Code

The Code adopts a “comply or explain” approach, where licensees are expected to either comply with the provisions or provide credible explanations for non-compliance.

The key compliance mechanisms include:

- i. **Annual Governance Reporting:** Entities must submit annual compliance reports detailing their corporate governance practices.
- ii. **Board Evaluations:** The Code mandates annual performance evaluations of boards and their committees.
- iii. **Internal Audit and Oversight:** Licensees are expected to establish audit committees and internal audit functions that report directly to the board.
- iv. **Regulatory Inspections by NERC:** NERC is empowered to monitor compliance, assess governance standards, and intervene where material breaches are identified.

Compliance and Implementation Challenges in the Nigerian Electricity Supply Industry

Compliance and implementation challenges of the NERC Code include resistance to change, lack of resources, and varying levels of understanding and commitment from industry stakeholders. The Code faces several hurdles in real-world application, including:

- i. **Weak Enforcement:** The absence of clearly defined penalties or incentives undermines compliance efforts, especially among underperforming utilities.
- ii. **Capacity Deficits:** Many licensees lack the internal capacity or expertise to operationalize the Code, particularly in governance evaluation and risk management.
- iii. **Conflicted Ownership Structures:** State involvement in several utilities can lead to political interference, blurred governance roles, and resistance to reforms.
- iv. **Cultural Resistance:** There remains a cultural resistance in parts of the sector that undermines transparency, board independence, and ethical leadership.
- v. **Varying levels of understanding and interpretation of the code's provisions:** This disparity can lead to inconsistent implementation across different companies, potentially undermining the code's effectiveness in achieving its intended objectives.
- vi. **Cost of compliance:** Particularly for smaller companies operating in the sector, can be substantial, creating a barrier to full implementation and potentially leading to a two-tiered system of governance within the industry.

The implementation and enforcement of the NERC Code of Corporate Governance are guided by several fundamental goals and principles. These consist of the following:

- i. Encouraging openness and disclosure, guaranteeing the independence and efficacy of the board.
- ii. Improving internal controls and risk management and cultivating stakeholder involvement.

Impact of the NERC Code on the Nigerian Electricity Supply Industry

The introduction of the NERC Code of Corporate Governance has a profound impact on corporate governance practices within the Nigerian electricity supply industry. Some of the most notable effects includes:

1. **Changes in board composition and Increased diversity:** The increased emphasis on board independence and diversity, with companies striving to ensure that their boards are composed of individuals with a wide range of skills, experiences, and perspectives. This shift leads to more robust decision-making processes and improved oversight of company operations.
2. **Increased transparency:** The code's requirements for enhanced transparency and disclosure may result in more comprehensive and timely reporting of financial and non-financial information, enabling stakeholders to make more informed decisions and hold companies accountable for their performance.
3. **Enhanced risk management practices:** The code fosters a greater focus on risk management and internal control systems, prompting companies to develop more comprehensive approaches to identifying, assessing, and mitigating potential risks to their operations. This heightened awareness of risk contributes to improved financial stability and operational resilience within the sector.
4. **Enhanced stakeholder trust and consumer satisfaction.**

The implementation of the NERC Code of Corporate Governance has a significant impact on various stakeholders within the Nigerian electricity sector. For investors and shareholders, the code provides greater assurance of transparency and accountability in company operations, thereby increasing confidence in investment opportunities. By promoting ethical conduct and responsible management practices, the NERC Code has also contributed to improved consumer trust and satisfaction.

Consumers benefit from enhanced service delivery and fair treatment by electricity companies that adhere to governance standards. Moreover, employees within electricity companies have experienced positive effects from the implementation of the NERC Code. The emphasis on fairness and responsibility lead to improved working conditions, ethical behavior, and career development opportunities within these organizations.

Regulators also benefit from the code's implementation, as it has facilitated better oversight and monitoring of corporate governance practices within the sector. Overall, the NERC Code plays a pivotal role in fostering a more transparent, accountable, and sustainable electricity supply industry in Nigeria.

Where adopted effectively, the Code has the potential to deliver measurable improvements in:

- i. **Board Oversight:** There is growing awareness among NESI boards about their governance responsibilities and obligations to the regulator and stakeholders.
- ii. **Risk Awareness:** Licensees are gradually adopting formalized risk management frameworks, enhancing operational resilience.

- iii. **Transparency:** Annual reporting obligations have encouraged more regular financial and performance disclosures, albeit inconsistently across the sector.
- iv. **Investor Confidence:** The introduction of the Code has improved the perception of regulatory seriousness, which could bolster investment confidence in the long term.

However, these gains remain limited in scope and heavily dependent on voluntary adherence.

Challenges and Criticism of the NERC Code

The Code has drawn valid criticisms in the following areas:

- i. **Vagueness in Enforcement:** The “comply or explain” standard lacks sufficient regulatory power to compel action in a sector accustomed to noncompliance.
- ii. **Inadequate ESG Provisions:** In the era of global energy transition, the omission of climate governance, sustainability indicators and environmental risk assessments is a significant gap.
- iii. **Neglect of Public Utilities' Governance Realities:** The Code does not provide detailed prescriptions for dealing with legacy inefficiencies and political pressures affecting government-owned transmission and distribution companies. It neglects governance realities of public utilities.
- iv. **Minimal Consumer Focus:** The governance structure omits mechanisms for consumer feedback or representation in governance frameworks, missing a critical stakeholder group.
- v. **Enforcement and Sanctions:** A major weakness of the code is the absence of codified sanctions. To address this NERC should introduce; a tiered penalty system, Non-compliance should affect license renewals and positive incentives should reward high-governance performers.

Recommendations for Improvement

To strengthen the Code and its impact on the NESI landscape, the following recommendations are proposed:

- i. **Codify Sanctions and Incentives:** NERC should move beyond moral suasion by establishing clear penalties and rewards for governance performance.
- ii. **Mandate ESG and Sustainability Reporting:** Require utilities to disclose climate risk strategies and sustainability plans aligned with global standards.
- iii. **Establish Monitoring and Enforcement Mechanism:** The establishment of a more robust monitoring and enforcement mechanism to ensure consistent compliance with the code across the industry. This could involve regular audits and the implementation of a system of incentives and penalties to encourage adherence to the code's provisions.
- iv. **Strengthen Public Utility Oversight:** Introduce specific governance guidelines and training for boards of public sector electricity companies.
- v. **Promote Stakeholder Inclusivity:** there is a call for greater collaboration between regulatory bodies, industry associations, and other stakeholders to address emerging challenges and continuously improve the code's effectiveness in promoting good corporate governance practices. Additionally embed consumer feedback and community engagement mechanisms into the governance structure.

- vi. **Capacity Development Programs:** NERC should invest in board training and compliance support for licensees, especially small and emerging operators. The development of more targeted training and capacity-building programs to help companies better understand and implement the code's requirements. These initiatives could focus on areas such as board effectiveness, risk management, and stakeholder engagement, providing practical guidance and best practices tailored to the specific needs of the electricity sector.

Conclusion

The NERC Code of Corporate Governance for NESI is a significant regulatory milestone with the potential to bring about cultural and operational shift in Nigeria's power sector. While it lays a strong foundation, its success will depend on how effectively it is implemented, enforced, and periodically updated to reflect changing realities. To ensure the Code does not become a symbolic document, NERC must embrace a proactive, transparent, and participatory approach embedding accountability at all levels, encouraging good behavior, and ensuring governance becomes a lived principle rather than a checkbox exercise. While challenges exist in its implementation, the code has a positive impact on stakeholders and has laid a solid foundation for future improvements in corporate governance. By aligning with international standards while addressing sector-specific challenges, the NERC Code has positioned the Nigerian electricity sector for continued growth and sustainability through enhanced governance practices.



OIL AND GAS SECTOR

REVIEW OF THE NIGERIAN UPSTREAM PETROLEUM REGULATORY COMMISSION COMMERCIAL REGULATIONS

Introduction

The Nigerian Upstream Regulatory Commission is a body of the Federal Government of Nigeria established via the Petroleum Industry Act 2021 saddled with the responsibility of regulating the operations of entities in the Nigerian Upstream Oil and Gas sector. In Pursuance of this mission and powers conferred on it by section 8 of the PIA 2021, the Commission on 5th May 2025 issued this regulation to regulate commercial activities in the Nigerian Upstream Oil and Gas sector. Amongst others, this regulation is a step further in the Nigerian Governments strategic effort to institutionalize cost effectiveness in the Nigerian Oil and Gas sector and attract Investments. The Regulations also seeks to promote Nigerian involvement in the sector and enhance transparency.

This broad statement of the scope of this regulation signals the intent of the commission that the provisions should be far reaching (applicable to all the subsets of the Upstream sector).

This Review will be structured as follows:

- i. Part A- General Review of the Regulations
- ii. Part B- Scope of application of the Regulations.
- iii. Part C- Market Implications

A. REVIEW OF THE REGULATIONS.

Regulation 1 provides the objective of the Act as being the regulation of commercial activities in the Upstream Petroleum operations.

Regulation 2 further provides that the subsequent regulation shall apply to licenses and leases granted under the Petroleum Industry Act with respect to Field Development Plans (FDPs), Annual Work Report (AWR) and Status report (SR). The regulations apply to Licenses and Leases which existed prior to the enactment of the Petroleum Industry Act (PIA) 2021 and preserved under the PIA 2021.

Regulation 3 provides for the requirements to be met when applying for an FDP or Phase Development Plan (PDP) as well as amendments to FDPs or PDPs which were granted or preserved under the PIA 2021, the basis on which the commercial aspects of proposed plans are approved and the indicators which the commission shall consider in appraising the profitability of a project. The required data to be submitted in when applying for an FDP/PDP are:

- i. Scope of the FDP and work breakdown structure.
- ii. FDP work activities, deliverables, and milestones schedule.
- iii. Projected annual hydrocarbon production and price estimates for the following, as applicable: Crude oil (with fiscal price as determined by the Commission), Field condensates, Associated gas, Non-associated gas, Plant condensates, Other natural gas liquid (NGL), Domestic gas supply and Export gas supply AND
- iv. Annual cost estimation at Class 3 project gate of -10% lower case, base case, and +20% upper case estimate, which must consist of the Acquisition costs, Estimated oil and gas royalties at forecasted average annual fiscal prices, Estimated direct production costs (all inclusive), Estimated operating costs (all inclusive), Estimated decommissioning and abandonment costs, Estimated finance cost (including interest expenses), Estimated depreciation and amortization, Estimated capital costs (all inclusive) and a Commercial evaluation which evinces that the forecasted project expenditure based on the planned costs shall allow for maximum economic recovery from the project, based on the economic indicators specified in the Regulations (Net Present Value (NPV), Internal Rate of Return (IRR), Break-even Analysis, Return on Investment (ROI), and Economic Sensitivity Analysis).

Regulation 4 reiterates that approvals for activities relevant to the execution of an FDP/PDP should be accompanied by a summary report on the status of the projects as prescribed by the commission. The regulation also provides that where the actual or projected cost of a project exceeds the pessimistic project gates as established in Regulation 3, the licensee or lessee shall seek the prior approval of the Commission by applying for an amendment to the Field Development Plan.

Regulation 5 establishes the mandatory annual submission of an Annual Work Programme (AWP) and Status Report (SR). It sets a strict submission window (October 15th to November 16th) and defines the effective period of an approved AWPSR (January 1st to December 31st). It also prohibits Licensees and Lessors from engaging in activities without attaining prior approval except such activities relate to health and safety emergencies (which still require subsequent notification). Finally, it provides that expenditure incurred which falls outside the approved AWP and SR, which is not an emergency for which later notification was given to the commission, will not be deemed as eligible expenditure for upstream development operations under a license or lease.

Regulation 6 provides the contents of an application for approval of an annual work programme and status reports as well as the supporting documents which should accompany the application for annual work report and status report.

Regulation 7 places an expectation on the Commission to approve an AWP and SR before January 1st of every year where it is satisfied of the AWP and SRs commercial and economic viability, operational feasibility and environmental sustainability, occupational safety, payment of statutory fees, and beneficial ownership information. Additionally, the commission in determining the economic and cost viability of an AWP is to consider the consider the cost estimates and ensure

- i. **Conformity with benchmarked costs**
- ii. **Optimal Government take and acceptable economic returns and**
- iii. **They fall within the Class 3 project gates of -10% optimal, base case, and +20% pessimistic.**
Where the costs are above the pessimistic project gates, they shall be considered as a new plan and shall require a fresh approval by the Commission

Regulation 8 essentially provides a structured and time-bound process for modifying AWP. It states that AWP may be modified by the licensee or lessee (before or after commencement) or by the commission as a directive to the licensee or lessee. Applications for modifications made by licensee or lessee need be submitted at least 30 days prior to implementation of the proposed modifications and must be accompanied by payment of requisite fees. However, where such modification is at the instance of the Commission, no fees need be paid and such modification or proposal on how the modification can be accommodated in an acceptable manner is to be made within 30 days of being notified by the commission. An application is deemed approved if the commission fails to communicate its approval or disapproval within 30 days of the application being made.

Regulation 9 empowers the Commission to disapprove an AWP or SR if it fails to meet prescribed conditions. The Commission is required to notify the licensee/lessee in writing with reasons and may require a new application (with new fees).

Regulation 10 mandates licensees and lessees to provide a bi annual report on the implementation status of its approved AWP to the commission. It also provides for the content of what such report must include (execution details and challenges faced, compliance, significant incidents, R&D, and Nigerian content development initiatives implemented during the period etc.)

Regulation 11 outlines the duty of the Commission to evaluate AWP performance. In performing this evaluation, the commission is permitted to make visits to Licensees/Lessees sites pursuant to at least 48 hours' notice in writing to the licensee or lessee. The notice should contain a list of places to be inspected, equipment, operations and books. Upon completion of inspection, the licensee or lessee is to be notified of findings and issued directives if any to optimize its work programme implementation.

Regulation 12 encourages meaningful interaction between the Commission and operators to discuss AWP and SR implementation in a bid to ensure smooth flow. The Commission may use the information gathered through the engagement(s) to evaluate the licensee or lessee's performance and direct the licensee or lessee to modify its AWP.

Regulation 13 addresses the formal process for discontinuing an approved AWP and SR. The discontinuance is commenced by a notice which shall be in writing and submitted at least 30 days before the intended date of discontinuance, stating the reasons for the discontinuance and other relevant information about the licensee or lessee. The Commission is required to give feedback within 14 days of its receipt of the notice of discontinuance. It also provides that failure to submit a new application after discontinuance may be considered an intention to surrender the license or lease, potentially leading to the Commission directing its surrender.

Regulation 14 grants the Commission the power to request commercial details of agreements between operators and third parties. Such information may form the basis on which the Commission may issue recommendations to the operators on cost optimization in implementing the agreements.

Regulation 15 seeks to foster inter operational collaborations to drive economic recovery of hydrocarbons, environmental sustainability and infrastructural development.

Regulation 16 outlines the cause of action when a breach of these regulations occur. They include issuing a written warning or imposing an administrative penalty.

Regulation 17 details the various penalties for infractions of the regulations ranging from N10, 000,000 to N 100,000,000.

Regulation 18 details the process for applying for review of the commissions decisions regarding AWP levied. The application for review is to be submitted within 30 days of the decision being reached and the Commission shall provide a written response, replying the application for review within 30 days of receiving the application.

Regulation 19 provides reports which required to be submitted to the commission.

Regulations 20 and 21 are the interpretation and citation sections respectively.

B. SCOPE OF APPLICATION OF THE REGULATIONS

Primarily, this regulation applies to licensees and lessees whose licenses and leases granted prior to the enactment of the PIA was preserved under the PIA 2021 or granted anew under the PIA 2021. However, practically this regulation may have a broader reach. This may also apply to:

- Service Providers who may face indirect scrutiny per Regulation 14 which empowers the NUPRC to request commercial details of agreements between licensees/lessees and third parties for the purpose of recommending means of cost optimization. This means service providers will need to ensure their terms are competitive and justifiable, as their potential clients ability to secure regulatory approval for costs may depend on it.
- Financiers, Investors and Banks providing capital to upstream projects must now factor in the current cost controls, economic viability criteria, and detailed reporting obligations imposed by these Regulations. The regulatory oversight introduces a layer of financial scrutiny that will influence investment decisions, due diligence processes, and the terms of project financing.

The regulations relate specifically to the commercial aspects of FDPs, AWP and SR of the licensees and lessees. In summary, the regulations seek to govern the financial and economic viability assessments, detailed cost estimations, and the reporting mechanisms associated with these crucial operational plans.

C. OPERATIONAL IMPLICATIONS

i. Operational and Financial Implications

- **Rigorous Field Development Plan (FDP) and Phase Development Plan (PDP) Preparation:** Market players must invest significantly in the area of project planning. The implication is a demand for enhanced technical and commercial forecasting capabilities, potentially requiring investments in new software tools or specialized expert consultants to meet the required level of detail and accuracy.
- **Strict Cost Management and Benchmarking:** The requirement for Class 3 project gate cost

estimations (optimal -10%, base case, and pessimistic +20%) across all cost categories means that robust internal cost control systems are paramount.

- **Demonstrable Economic Viability:** Projects must clearly demonstrate economic viability benchmarked by certain expectations stated in the regulation. This necessitates sophisticated financial modeling and investment appraisal capabilities within operating companies. Projects that are marginally viable or carry high inherent financial risks may struggle significantly to gain the necessary regulatory approval.

ii. **Compliance and Reporting Burden**

- **Increased Reporting Frequency and Detail:** Licensees and lessees are now mandated to submit not only annual work programmes and status reports, but also half-yearly implementation reports which require extensive detail covering activities, associated costs, compliance status, significant incidents and others.
- **Financial Penalties for Non-Compliance:** Failure to submit an Annual Work Programme and Status Report (AWP/SR) in accordance with the Regulations incurs a substantial administrative penalty of ₦10,000,000, along with an additional penalty of ₦1,000,000 for every day the breach continues.
- **Enhanced Regulatory Scrutiny:** The NUPRC is empowered to conduct periodic evaluations, monitoring visits, and field inspections, with the AWP serving as a key metric for performance assessment and company ranking.

Conclusion

The Nigerian Upstream Petroleum Regulatory Commission Commercial Regulations represent a significant milestone in strengthening oversight and governance of commercial activities in the upstream oil and gas sector. By establishing clear requirements for planning, reporting, approval, and compliance, these Regulations seek to enhance transparency, accountability, and operational discipline among the key players in the sector. In addition, their effective implementation will be critical in ensuring optimal economic recovery, sustainable development, and improved collaboration between operators and the Commission. To this effect, all upstream licensees and lessees must align their activities with these provisions to foster a more robust and sustainable petroleum industry in Nigeria.

REVIEW OF THE UPSTREAM PETROLEUM OPERATIONS (COST EFFICIENCY INCENTIVES) ORDER, 2025

Introduction

The Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025 (the “Order”), which took effect on April 30, 2025, marks a significant shift in Nigeria's strategy to revitalize its vital oil and gas sector. Signed by President Bola Ahmed Tinubu, this Executive Order directly establishes a framework of incentives to promote cost efficiency, encourage discipline in expenditure, and enhance Nigeria's global competitiveness in oil and gas operations. This review examines the provisions of the Order sequentially and evaluates its practical implications for the upstream oil and gas sector.

A. General Overview of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025

Primary Objective

Paragraph 1 lays out the primary objective of the Order which is to create a Cost Efficiency Incentive (CEI) framework aimed at reducing the operating costs and improve competitiveness, by encouraging stakeholders to adopt best practices. It aims to achieve these goals by reducing costs, promoting discipline, streamlining contract cycles, and maximizing economic value. Tax incentives will also be introduced for meeting or exceeding cost reduction targets as a noteworthy innovation which links regulatory compliance with direct financial benefit.

Scope and Application

Paragraph 2 provides for the scope of application as lessees, licensees, and contractors operating in the upstream petroleum sector. Significantly, it makes clear that only entities which meet or surpass cost reduction targets as determined by the Nigerian Upstream Petroleum Regulatory Commission (the “Commission”) will be eligible for the incentives. This condition ensures that the benefits of the scheme are performance-based, thereby minimizing room for abuse.

Responsibilities of the Commission

Paragraph 3 details the responsibilities of the Commission, particularly in benchmarking and target setting. Amongst others, it provides:

- a) That the Commission must annually evaluate and compare the costs of "upstream operational activities" and "Unit Operating Costs" for the different types of upstream oil and gas environments (onshore, shallow water, and deep offshore);
- b) That the Commission shall determine cost benchmarks vide guidelines issued under the Petroleum Industry Act. The issuance of such guidelines is subject to consultation with relevant stakeholders.
- c) That the Commission shall annually set specific targets for reducing Unit Operating Costs for each terrain (onshore, shallow water, deep offshore), considering the unique aspects of their operating environment and production volume.

- d) The Commission will conduct annual reviews, aligned with the tax return cycle, of the performance of lessees or licensees (oil and gas companies), with the primary metric being Unit Operating Costs, to determine if they are attaining the set targets.

These provisions introduce a dynamic, data-driven mechanism for setting cost expectations, with stakeholder consultation and publication of methodology, constituting an attempt at enhancing transparency. In addition, sub (3) and (4) incentivizes achieving and exceeding cost performance targets by providing tax incentives.

Tax Credit Incentives

Paragraph 4 speaks to the tax credit incentives. Under this Order, companies that maintain operating costs below the commission's benchmarks will be allowed to claim a tax credit which reflects a portion of the incremental government share arising from cost reductions. The tax credits shall be applied against the overall tax liability of the tax payer's relevant asset and calculated as provided in subsequent **paragraph 5** without compromising existing government revenue expectation. Adopting this tax credit system cleverly aligns private incentives with public fiscal interests, as it ensures that cost savings are shared between operators and the government. Additionally, the incentive framework is time-bound, expiring in 2035 unless renewed.

Computation of Cost Efficiency Incentive (CEI)

Paragraph 5 provides the formula for computing the CEI as follows:

$$CEI = (CS) * RTR * 50\%$$

$$CS = (TOC - AOC) * V$$

Key:

CS = Cost Savings

RTR = Referenced Tax Rate

AOC = Actual Operating Costs

TOC = Target Operating Cost

V = Annual Fiscal Sales of Hydrocarbons

50% = the ceiling for the CEI.

Global Alignment and Incentive Cap

Paragraph 6 provides that the cost reduction targets shall be set with the intention of aligning Nigeria's upstream petroleum operating costs with global standards and best practices. Effectively eliminating the cost premium in Nigeria's oil and gas sector and establishing targets drive year-on-year improvements in cost efficiency. This paragraph also sets a cap of 20% of the taxpayers' total tax liability as the incentive claimable in a financial year and provides essentially that UOC utilized for tax credit eligibility status must have been the same utilized for computing adjusted profits for tax purposes. Tax credit granted under this Order is valid for offsetting income tax liability in the year they occur and utilized within three years of issuance.

Implementation Guidelines

Paragraph 7 mandates the issuance of implementation guidelines within thirty (30) days, with detailed benchmarks to be published within ninety (90) days of the start of each calendar year. It also provides for annual publication of qualifying companies. These requirements enhance transparency and give operators clear expectations.

Effective Date

Paragraph 8 provides the effective date of the Order to be **April 30th, 2025**.

Interpretation

Paragraph 9 offers Interpretation of certain key terms.

Short Title

Paragraph 10 provides the short title of the Order, formally designating it as the **Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025**.

B. SCOPE OF APPLICATION

The Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025, specifically applies to lessees, licensees, and contractors operating in the upstream petroleum sector.

C. IMPLICATIONS

This order has some implications on the market players whom it applies to. Some of them include:

- **Incentivized Cost Reduction:** It directly encourages applicable entities to actively reduce their operating costs and adopt more efficient practices.
- **Increased Profits:** Companies that successfully meet or surpass cost reduction targets, as determined by the Commission will be eligible to claim a tax credit which ultimately means more money retained by the company.
- **Enhanced Competitiveness:** By driving down costs, the Order aims to make Nigerian operations more globally competitive, potentially attracting more investment.
- **Increased Transparency and Predictability:** The mandated annual benchmarking, target setting, stakeholder consultations, and publication of qualifying companies provide greater transparency and clearer expectations for operators.
- **Dual Benefits:** The tax credit system ensures that the financial benefits derived from cost savings are shared between the operators and the government, aligning private and public fiscal interests.

Conclusion

The Order represents a well-conceived and strategically timed intervention in Nigeria's petroleum regulatory landscape. Its strength lies in its performance-based incentive structure, multi-agency coordination, and focus on transparency and discipline. If properly implemented, it could lower Nigeria's cost of production, attract investment, and improve returns to the state. However, its success will ultimately depend on institutional capacity, especially the effectiveness of the Commission and FIRS in benchmarking, monitoring, and enforcement.



CONTRIBUTORS

Ivie Ehanmo

Partner

ivie@geplaw.com

DianaAbasi Okop

Senior Associate

dianaabasi@geplaw.com

Adeola Makinde

Associate

adeola.makinde@geplaw.com

Iwinosa Aibangbee

Associate

iwinosa.aibangbee@geplaw.com

Olatunde Oladoyin

Associate

olatunde.oladoyin@geplaw.com

Twitchell Eniolorunda

Graduate Intern

irewole.eniolorunda@geplaw.com

