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LEGAL PRACTITIONERS

ENERGY LAW DIGEST Q2 2026

Domestic Crude Supply Obligation and Domestic Refining: From Policy to Implementation

The second quarter of 2026 witnessed increased regulatory attention on the implementation of Nigeria's Domestic Crude Supply Obligation (DCSO), as the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) published performance data showing the extent to which crude supply commitments to domestic refineries were being fulfilled. The disclosure represented a significant shift from establishing the legal framework for domestic crude allocation to assessing whether the obligation was achieving its intended objective of strengthening local refining capacity.

Under Section 109 of the Petroleum Industry Act (PIA) 2021, upstream producers are required to contribute to domestic crude supply obligations for licensed domestic refineries. The framework is further supported by the Production Curtailment and Domestic Crude Oil Supply Obligation Regulations, 2023, which provide the mechanism through which the NUPRC administers domestic crude allocation and compliance.

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deliveries to domestic refineries amounted to only 28.5 million barrels, representing a significant gap between crude volumes made available and volumes ultimately supplied. NUPRC attributed the shortfall largely to commercial disagreements, particularly pricing differences between producers and domestic refiners, noting that transactions continued to operate within a “willing buyer, willing seller” framework.

The development highlights an important distinction between regulatory obligation and operational reality. While the PIA creates a statutory mechanism to support domestic refining, the effectiveness of the DCSO depends not only on legal compliance but also on commercially viable arrangements between crude suppliers and refiners. The supply gap therefore demonstrates that domestic refining challenges are no longer solely related to infrastructure availability but also involve pricing structures, contractual arrangements, and coordination among sector participants.

From a legal perspective, the Q2 developments demonstrate the increasing role of the NUPRC in monitoring and enforcing compliance with the PIA framework. The publication of DCSO performance data indicates a move towards greater transparency and regulatory supervision. However, the continued gap between allocated volumes and actual deliveries suggests that enforcement mechanisms must be balanced with commercial realities to ensure that domestic supply obligations do not undermine upstream investment incentives.

Upstream Production Outlook and Licensing Developments

The second quarter of 2026 recorded notable developments in Nigeria's upstream petroleum sector, particularly in relation to production performance, investor engagement, and regulatory planning under the Petroleum Industry Act 2021. These developments reflect ongoing efforts by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) to consolidate \regulatory oversight and enhance investment attractiveness in the sector.

Nigeria recorded an improvement in crude oil production during the period. According to NUPRC production monitoring data, crude oil output (excluding condensates) averaged approximately 1.53 million barrels per day in May 2026, marginally exceeding the OPEC production quota benchmark of 1.5 million barrels per day. Including condensates, total production levels were higher. NUPRC attributed this trend to improved operational performance and ongoing stabilisation efforts within upstream operations.

This improvement represents a positive development in the context of Nigeria's historical production constraints, including infrastructure challenges, security concerns, and underinvestment in upstream assets. However, sustaining production gains remains dependent on continued capital inflows, infrastructure reliability, and regulatory certainty.

A key upstream development during the quarter was the progression of Nigeria's petroleum licensing programme. NUPRC indicated that preparations for the 2026 oil and gas licensing round were underway, with commencement projected for the third quarter of 2026, subject to ministerial approval. The development forms part of ongoing efforts to stimulate exploration activity and expand upstream acreage opportunities.

From a legal and regulatory perspective, these developments reflect the continued implementation of the Petroleum Industry Act 2021, particularly the expanded licensing and supervisory functions of the NUPRC. The licensing framework must balance investment attraction with transparency, compliance enforcement, and long-term resource governance objectives.

NUPRC Conversion and Renewal (Licences and Leases) Regulations, 2026

Further implementation of the Petroleum Industry Act 2021 was achieved in Q2 2026 through the issuance of the Nigerian Upstream Petroleum Regulatory Commission's Conversion and Renewal (Licences and Leases) Regulations, 2026. The Regulations are widely reported by leading energy law commentators to update and replace the earlier 2022 framework, and they establish an updated procedure for the conversion, renewal, and extension of upstream petroleum titles under the PIA regime.

The Regulations apply to several categories of upstream interests, including the conversion of legacy Oil Prospecting Licences (OPLs) and Oil Mining Leases (OMLs) into Petroleum Prospecting Licences (PPLs) and Petroleum Mining Leases (PMLs), renewal of existing titles, conversion of marginal field interests, and progression of discoveries into producing assets where applicable.

The updated framework is significant because the PIA introduced a transition from the previous licensing structure to a new title regime. Consequently, the conversion process is central to determining how existing operators migrate into the PIA framework and retain secure tenure over petroleum assets. The 2026 Regulations are widely reported to retain the core conversion framework introduced in 2022 while introducing amendments intended to clarify the Commission's approach to title administration, conversion applications, and renewal processes.

The reforms also reflect the regulator's continued emphasis on regulatory certainty, asset progression, and the efficient administration of upstream petroleum assets. From a legal perspective, the Regulations demonstrate the continuing operationalisation of the PIA's upstream reforms. While the licensing regime creates opportunities for investment, the conversion and renewal framework determines the security and continuity of existing petroleum rights. Operators must therefore ensure compliance with conversion requirements, development obligations, and regulatory timelines to preserve their interests.

Gas Sector Financing, Energy Transition and Data Governance Developments

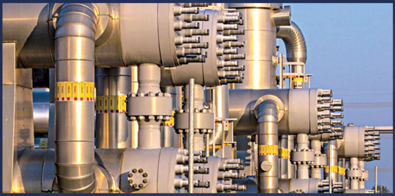
Q2 2026 marked increased regulatory and institutional focus on strengthening investment flows into Nigeria's gas sector, enhancing energy transition compliance mechanisms, and improving data governance frameworks within the upstream petroleum industry.

The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) called on financial institutions to play a more active role in supporting domestic gas development and infrastructure expansion. This appeal was made in the context of efforts to unlock investment, improve production capacity, and strengthen collaboration among regulators, financiers, and operators across the gas value chain. NUPRC also highlighted strong investor interest in Nigeria's upstream sector, reflected in the significant number of applications received during the ongoing licensing bid round.

In addition, the Commission outlined ongoing energy transition initiatives, including the issuance of Permits to Access Flare Gas (PAFG) to multiple operators and policy targets aimed at reducing fugitive methane emissions in the upstream sector by 2031. These measures reflect growing regulatory emphasis on environmental sustainability and emissions management within Nigeria's petroleum industry.

In a related development, the National Bureau of Statistics (NBS) announced enhanced collaboration with the NUPRC to improve the collection and exchange of upstream petroleum data. The collaboration covers key datasets including crude oil production, gas reserves, oil spill incidents, and upstream company operations. This initiative forms part of broader reforms aimed at strengthening Nigeria's statistical infrastructure under the Integrated System of Administrative Statistics and petroleum natural capital accounting framework.

From a legal and regulatory perspective, these developments reflect the evolving governance structure under the Petroleum Industry Act 2021, particularly in relation to investment facilitation, environmental regulation, and data transparency. The increased integration between regulatory agencies and financial as well as statistical institutions underscores the multi-layered nature of Nigeria's upstream petroleum governance framework.



Electricity Sector and Energy Transition Developments

Continued regulatory developments were showcased in Nigeria's electricity sector in the second quarter of 2026, with emphasis on decentralisation, renewable energy regulation, and strengthening institutional oversight. These developments reflect the continued implementation of the Electricity Act 2023 and the broader objective of improving electricity access, market efficiency, and private sector participation.

A significant regulatory development during the quarter was the continued transition towards a decentralised electricity market structure. The Nigerian Electricity Regulatory Commission (NERC) confirmed that regulatory oversight for intrastate electricity operations had transitioned to state electricity regulators in several states, marking a shift from the previous centralised regulatory model towards greater state-level participation in electricity governance.

This development follows the constitutional and legislative reforms that expanded the role of states in electricity regulation. Under the Electricity Act 2023, states are permitted to regulate electricity markets within their jurisdictions, subject to the applicable legal framework. The transition is intended to improve responsiveness, encourage local investment, and allow states to develop electricity solutions suited to their specific energy needs.

The quarter also witnessed further regulatory activity relating to renewable energy and distributed electricity solutions. NERC issued the Mini-Grid Regulations 2026 and announced the commencement of the Net Billing Regulations 2026, signalling increased regulatory attention towards decentralised energy systems and consumer participation in electricity generation. These frameworks are particularly relevant to Nigeria's energy transition agenda because they provide mechanisms for integrating renewable energy solutions into the electricity market.

The development of mini-grid and net billing frameworks is significant because renewable energy deployment in Nigeria has increasingly been driven by the need to address reliability challenges within the national grid. Distributed energy systems provide an alternative pathway for improving electricity access, particularly where grid expansion remains commercially or technically challenging.

From a legal perspective, these developments demonstrate the gradual movement of Nigeria's electricity sector from reform design towards market restructuring and implementation. The success of decentralised regulation will depend on effective coordination between federal and state regulators, clear licensing processes, and consistent application of technical and commercial standards.

Downstream Petroleum Market Developments: Domestic Refining and Market Transition

The second quarter of 2026 reflected a continuing transition in Nigeria's downstream petroleum market, with domestic refining capacity playing an increasingly significant role in meeting local petroleum product demand. The period was characterised by declining dependence on imported products, increased refinery utilisation, and continuing regulatory efforts to balance market competition with the objective of supporting local refining capacity.

According to data released by the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), domestic refineries recorded significantly higher utilisation levels during the quarter. In April 2026, local refineries operated at an average capacity utilisation rate of about 99.12%, with the Dangote Petroleum Refinery accounting for a substantial share of domestic petrol supply. This represented a notable development compared with Nigeria's historical reliance on imported refined petroleum products despite being a major crude oil producer.

The increase in domestic refining output contributed to a reduction in petrol import dependence. NMDPRA data analysed by industry reports indicated that petrol imports declined as local refinery supply increased, reflecting the growing contribution of domestic refining capacity to the downstream market.

However, the quarter also demonstrated that the transition to domestic refining is not without challenges. Despite increased local production, supply adjustments continued to occur within the market. Reports indicated that petrol imports increased again in May 2026 as marketers supplemented domestic supply, showing that refinery output and market demand must remain aligned to ensure consistent availability.

The issue of domestic crude availability also remained relevant to downstream stability. Although domestic refineries increasingly supplied petroleum products, concerns persisted regarding the reliability of crude supply arrangements required to sustain refinery operations. NMDPRA data reported a decline in locally sourced crude supplied to refineries in May 2026 compared with the previous month, highlighting the continuing link between upstream crude availability and downstream market performance.

From a legal perspective, these developments demonstrate the practical interaction between the Petroleum Industry Act 2021's objective of promoting domestic refining and the realities of a liberalised petroleum

products market. While the PIA encourages domestic supply obligations and increased local value addition, downstream regulation must continue to balance protection of

domestic refining investments with

competition, supply security, and consumer interests. Recent industry debates also

highlighted tensions surrounding fuel pricing regulation in a deregulated market, with stakeholders questioning the extent of

regulatory authority under the Petroleum

Industry Act to balance market forces with consumer protection objectives. This reflects ongoing uncertainty regarding the practical boundaries of price oversight within Nigeria's downstream regulatory framework.

Conclusion

Q2 2026 developments demonstrate that Nigeria's energy sector is gradually moving from legislative reform towards regulatory implementation and institutional enforcement. Across the petroleum and electricity sectors, regulators focused on operationalising the Petroleum Industry Act 2021 and the Electricity Act 2023 through updated licensing frameworks, enhanced oversight of domestic crude supply, expanded renewable energy regulation, and continued decentralisation of electricity governance.

At the same time, developments in the downstream sector illustrate that legal reforms alone cannot resolve structural market challenges, as issues relating to crude supply, infrastructure, pricing, and regulatory coordination continue to influence market outcomes.

For operators and investors, the quarter reinforces the importance of proactive regulatory compliance and continuous monitoring of Nigeria's evolving energy regulatory landscape. As institutions such as the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), and the Nigerian Electricity Regulatory Commission (NERC) continue to implement sector reforms, investment decisions will increasingly depend on regulatory certainty, transparent administration, and consistent enforcement. The quarter also witnessed renewed industry discussions on regulatory overlap under the Petroleum Industry Act, reflecting continued calls for clearer institutional coordination between the NUPRC and NMDPRA in order to enhance regulatory certainty and investor confidence. While Q2 2026 reflects encouraging progress towards implementation, the long-term success of Nigeria's energy reforms will ultimately depend on effective institutional coordination, predictable regulation, and sustained commitment to the objectives of the Petroleum Industry Act and the Electricity Act.