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Upstream Licensing and Performance Obligations: From Acreage Allocation to “Drill-or-Drop” Enforcement

The third quarter of 2026 recorded significant developments in Nigeria's upstream petroleum sector, particularly the allocation of new

acreage and stronger enforcement of licence performance obligations. These developments reflect the Nigerian Upstream Petroleum

Regulatory Commission's (NUPRC) continued focus on linking petroleum acreage to actual investment, exploration and development.

On 21 July 2026, the NUPRC announced 31 successful companies for 37 oil and gas blocks under the 2025 Licensing Round. More significantly, in September 2026, the NUPRC moved towards active enforcement of the “Drill-or-Drop” principle against holders of non-performing petroleum licences. In a circular dated 14 September 2026, referenced NUPRC/1127/Vol.13/55, the NUPRC directed affected holders of Petroleum Prospecting Licences (PPLs) from the 2020 Marginal Field Bid Round, 2022/2023 Mini Bid Round and 2024 Licensing Round to disclose their compliance status, identify constraints affecting their approved work programmes and submit proposed mitigation measures and revised implementation timelines by 31 October 2026.

The NUPRC indicated that continued



possession of acreage is dependent on compliance with licence obligations, including approved work programmes and work performance requirements. Where non-performance persists, possible regulatory measures include refusal of licence extensions, relinquishment, calling in of work performance securities and revocation proceedings. From a legal and regulatory perspective, the development demonstrates a shift towards closer monitoring and enforcement of continuing upstream licence obligations. The award of acreage does not, by itself, guarantee continued possession; licence holders remain subject to their approved work programmes and other applicable conditions.

For operators and investors, the development highlights the need to monitor licence terms, work programmes, performance securities and regulatory timelines. It also reinforces the NUPRC's broader approach of tying continued access to petroleum acreage to demonstrable performance and development.

Deep Offshore Investment and Fiscal Incentives

On 6 August 2026, President Bola Ahmed Tinubu signed the Deep Offshore Oil and Gas Projects Incentives (Tax Remission) Order, 2026, providing a structured

framework of production tax credits and other incentives for qualifying projects.

The Order provides for Standard Production Tax Credits for qualifying deep offshore oil and non-associated gas developments, with an additional Supplementary Production Tax Credit available on a case-by-case basis based on the economic profile of an eligible project. It also introduces a Profit Oil Reset for qualifying Production Sharing Contract (PSC) developments, allowing the profit-oil sliding scale to restart at a 70:30 Contractor-Government split for the approved project, subject to the conditions in the Order.

The incentives are not automatic. The Order sets eligibility and compliance conditions, including Final Investment Decision (FID) requirements, Nigerian-content obligations, economic assessment and application requirements, while providing for clawback where an incentive is obtained improperly.

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.



Domestic Gas Supply Obligations and Gas Market Reform

The third quarter of 2026 saw regulatory efforts to improve domestic gas supply while gradually increasing commercial flexibility in Nigeria's gas market. Key developments

included consultations on a proposed Gas Swap Framework for Domestic Gas Delivery Obligations (DGDO), broader domestic crude and gas swap arrangements,

increased scrutiny of flare-gas site awards, and a proposed transition to a willing-buyer, willing-seller gas market.

In July 2026, the NUPRC held a stakeholder workshop on its proposed Gas Swap

Framework for DGDO compliance, following domestic gas delivery performance of 2.05

billion cubic feet per day (Bcf/d) in June 2026 against a DGDO allocation of 3.16 Bcf/d,

representing approximately 65%

performance. The proposed framework would allow operators whose gas is stranded or

difficult to evacuate to work with operators possessing the infrastructure required to

deliver gas to domestic customers, thereby converting supply obligations into physical deliveries.

In August 2026, the NUPRC also disclosed consultations on a broader domestic crude oil and gas swap arrangement. The proposed mechanism would allow parties with

obligations in different locations to structure supply arrangements and meet their

respective obligations, potentially improving



compliance with the Domestic Crude Supply Obligation and DGDO while reducing logistical constraints.

The NUPRC also strengthened its oversight of the Nigerian Gas Flare Commercialisation

Programme (NGFCP). In September 2026, it stated that flare-gas site awards could be

revoked where awardees failed to demonstrate sufficient progress. Of the 43 sites initially identified for award, 27 had been awarded, with the Commission evaluating progress one year after an award.

Separately, the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) set 24 September 2028 as a target for Nigeria's domestic gas market to transition to a fully established willing-buyer,

willing-seller framework. The transition is to be assessed against market-maturity indicators including gas supply, infrastructure access, contract and payment reliability, market

participation and credible price signals. These developments point to a gas market in

transition and regulators seeking flexibility in meeting domestic supply obligations while maintaining compliance and performance

requirements.

Competition and Market Access in the Midstream and Downstream Petroleum

The third quarter of 2026 saw developments aimed at strengthening competition and market access in

Nigeria's midstream and downstream petroleum sector. These included proposed sector-specific competition regulations, increased cooperation between the NMDPRA and the Federal Competition and Consumer Protection Commission (FCCPC), and a Federal High Court decision concerning petroleum products import licences.

On 6 August 2026, the NMDPRA published the Draft Midstream and Downstream Petroleum Prevention of Anti-Competitive Practices and Behaviour Regulations, 2026 for stakeholder engagement pursuant to section 216 of the Petroleum Industry Act (PIA) 2021. A stakeholder consultation was subsequently held on 22 September 2026. The proposed Regulations comprise 138 regulations across 23 Parts and seek to establish a detailed competition framework for the midstream and downstream petroleum sectors, covering matters including anti-competitive conduct, abuse of dominance, access to essential infrastructure, vertical integration, mergers and acquisitions, digital markets, enforcement and regulatory coordination.

A key aspect of the proposed framework is the requirement for open and non-discriminatory access to essential petroleum infrastructure, alongside measures addressing conduct that could restrict competition. If adopted, the Regulations could have implications for infrastructure-access arrangements,

commercial contracts, affiliate dealings, pricing practices and other business arrangements within the regulated sectors. The Regulations remain at the consultation stage and may therefore be amended before adoption.

The developments were accompanied by increased cooperation between the NMDPRA and the FCCPC. In September 2026, the two agencies disclosed that they had entered into an Memorandum of

Understanding to strengthen coordination on competition regulation in the petroleum sector. The arrangement is intended to facilitate regulatory cooperation and complement the sector-specific competition framework being developed by the NMDPRA.

On 28 September 2026, the Federal High Court in Abuja also ordered the NMDPRA to continue granting, issuing, extending, renewing or reissuing petroleum products import licences to Matrix Energy, A.A. Rano and AYM Shafa, subject to applicable statutory and regulatory requirements. The decision provides a judicial reference point on the exercise of the NMDPRA's licensing powers.

Taken together, the developments highlight the growing intersection between competition law and petroleum-sector regulation, particularly in relation to infrastructure access, commercial conduct and the exercise of regulatory powers.



Decentralisation of Electricity Regulation

The third quarter of 2026 saw further implementation of Nigeria's decentralised electricity regulatory framework under the Electricity Act 2023, with additional regulatory functions transferring from the federal to state level.

On 19 August 2026, Nigerian Electricity Regulatory Commission (NERC) issued a Transfer Order transferring regulatory oversight of the electricity market in Akwa Ibom State to the Akwa Ibom State Electricity Regulatory Commission (AKSERC). The Order represents a further step in the implementation of the state-level regulatory framework contemplated by the Electricity Act.

The transition has also increased the need for coordination between NERC and State Electricity Regulatory Commissions. On 27 August 2026, the Forum of Nigerian Electricity Regulators (FONER) held its second meeting with NERC and the State Electricity Regulatory Commissions, with discussions focused on strengthening coordination and developing a more transparent and responsive regulatory environment.

The growing role of state regulators has implications for electricity businesses operating across different jurisdictions. Depending on the nature and location of their activities, businesses may need to consider state-level requirements

relating to licensing, tariffs, market participation, consumer protection and regulatory oversight, alongside applicable federal requirements.

The developments therefore underscore the need for electricity-sector businesses to identify the applicable regulatory authority and requirements for each activity as Nigeria's decentralised regulatory framework continues to develop.



NERC Intervention and Financial Governance of Distribution Companies

The third quarter of 2026 saw increased regulatory intervention in the electricity distribution segment, particularly in response to financial and operational underperformance by Distribution Companies (DisCos).

On 10 August 2026, NERC issued Order No. NERC/2026/086, dissolving the Board of Directors of Kaduna Electricity Distribution Plc (KAEDC) pursuant to sections 75–79 of the Electricity Act 2023. NERC cited significant financial and operational challenges, including approximately ₦456.5 billion in total market obligations, 41.93% remittance of adjusted market invoices in 2025, Aggregate Technical, Commercial, and Collection (ATC&C) losses of 71.88%, and investment of ₦2.48 billion against a capital requirement of ₦24.51 billion. Customer metering coverage was also below 36%.

NERC subsequently constituted a five-member Interim Board of Special Directors for an initial one-year period and appointed an Interim Administrator for an initial six-month period. It also stated that Afrexim Bank would coordinate a 12-month competitive process to secure a replacement core investor. The intervention therefore

extended beyond board dissolution to interim governance and a process aimed at restoring KAEDC's financial and operational viability.

In September 2026, NERC also issued a revised Order on the use of DisCos' operating expenditure. The Order, effective from 4 September 2026, requires DisCos to set aside part of their operating expenditure for approved network-improvement projects, with the proportion increasing from 50% to 60% from February 2027. The framework also requires NERC approval and reporting for projects funded under the arrangement.

Taken together, the developments show increased regulatory oversight of the financial and operational management of DisCos, including their corporate governance and the use of revenues for network investment.



Conclusion

Q3 2026 developments demonstrate that Nigeria's energy sector is continuing to move from broad legislative reform towards regulatory implementation, enforcement, and market restructuring. Across the petroleum sector, regulators focused on upstream licensing and performance obligations, deep offshore fiscal incentives, domestic gas supply, competition, and market access. At the same time, developments in the electricity sector illustrate the continuing decentralisation of regulatory functions and increased intervention in the financial and operational management of Distribution Companies.

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, the Nigerian Midstream and Downstream Petroleum Regulatory Authority, and the Nigerian Electricity Regulatory Commission continue to implement sector reforms, businesses will increasingly need to consider regulatory requirements, performance obligations, licensing conditions, and institutional coordination in their decision making.

While Q3 2026 reflects continued progress towards implementation, the practical impact of Nigeria's energy reforms will ultimately depend on effective regulatory enforcement, compliance by sector participants, and coordination between the relevant institutions.

