Nigeria's Gas Flare Commercialisation Programme (NGFCP): Structuring Bankable Flare Gas Capture and Commercialisation Projects

www.strenandblan.com
contact@strenandblan.com
@strenandblan

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road, Lekki Phase 1, Lagos, Nigeria

27th
February, 2026

Introduction

Nigeria has long struggled with the environmental, economic, and social consequences of routine gas flaring. In this practice, associated natural gas is burned off during oil production instead of being captured and utilised. This practice not only contributes significantly to greenhouse gas emissions and local health hazards but also represents a massive loss of a valuable energy resource. In response, the Federal Government, acting pursuant to its regulatory mandate and policy commitments under the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), the Petroleum Industry Act of 2021, and Nigeria's international climate obligations, launched the Nigerian Gas Flare Commercialisation Programme (NGFCP) on December 13, 2016.

The NGFCP is a market based initiative designed to convert wasted flare gas into economic value, attract private sector investment, and align the oil and gas sector with sustainable development objectives. At its core, the NGFCP repositions associated gas from environmental liability to a commercially viable feedstock. Through transparent allocation of flare sites and the issuance of Permits to Access Flare Gas (PAFG) to successful awardees, Nigeria seeks to create bankable gas utilisation projects capable of delivering clean energy, industrial feedstock, power generation, LPG production, and employment opportunities.

In late 2025, the NUPRC issued permits to 28 awardees following a competitive process that allocated 49 flare sites and qualified projects to capture an estimated 250–300 million standard cubic feet per day of currently flared gas. This milestone marks a shift toward execution and implementation, with projected investments of up to US$2 billion, over 100,000 jobs, nearly 3,000 MW of power potential, and significant LPG production capacity.[1]

1 https://www.nuprc.gov.ng/nuprc-issues-permit-to-28-firms-for-flare-gas-utilisation-projects-2bn-investments-i00000-jobs/

Policy Context and Regulatory Architecture

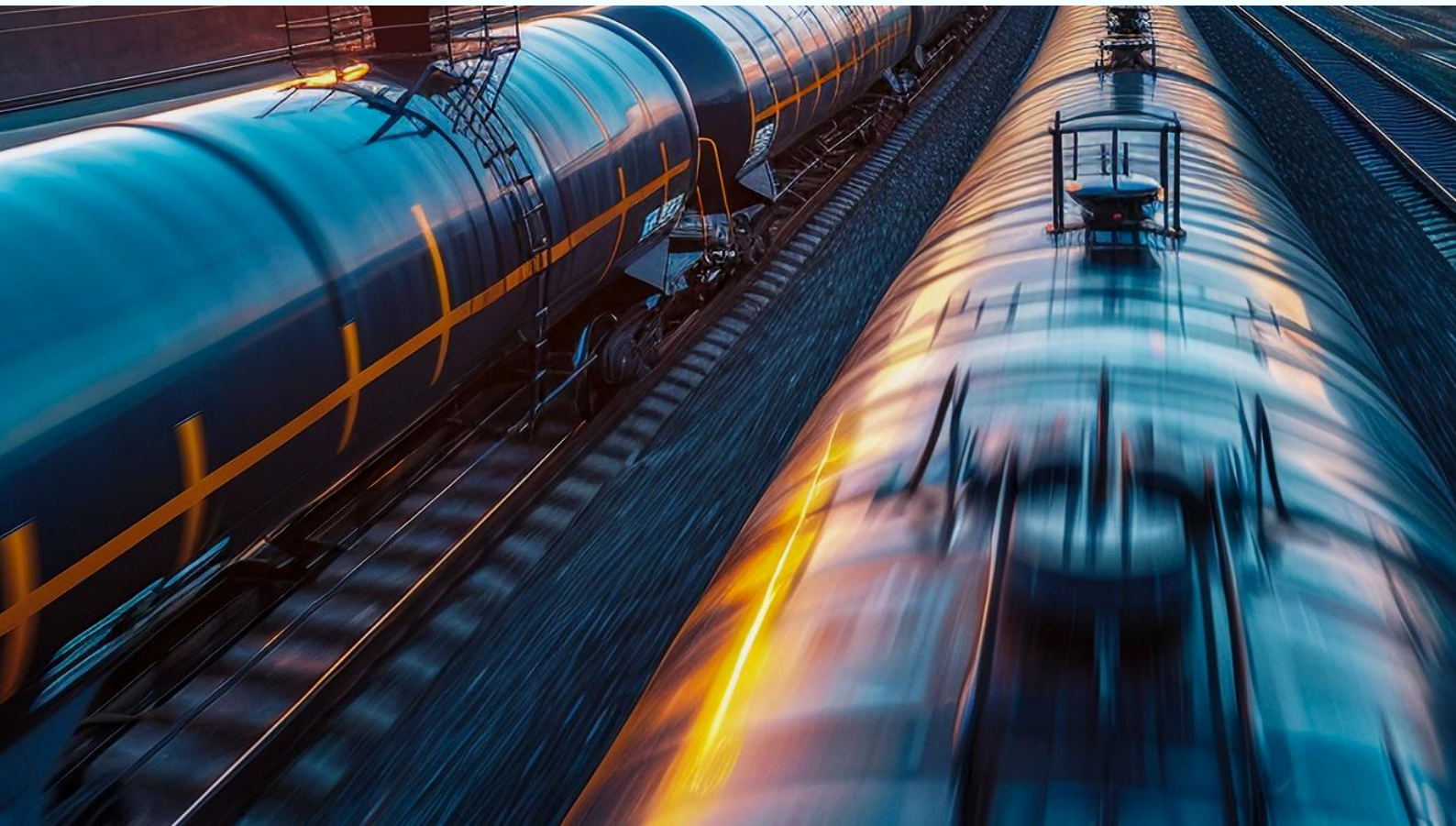
Historically, Nigeria relied primarily on flare penalties to discourage routine gas flaring.

Under this approach, operators faced fines for flaring, but enforcement challenges and relatively low penalties limited the effectiveness of the regime.

The NGFCP introduces a market-based allocation system, whereby flare gas is treated as a sovereign resource, separated from upstream operators, and competitively allocated to qualified investors. This transition reflects three core policy objectives:

- Environmental decarbonisation and emissions reduction
- Domestic gas commercialisation and industrial growth
- Private capital mobilisation for gas infrastructure

This approach moves Nigeria from a primarily punitive framework to one that incentivises investment in flare gas capture and utilisation.



Statutory Foundation

The NGFCP is anchored in:

- Petroleum Industry Act (PIA) 2021
- Gas Flare (Prevention of Waste and Pollution) Regulations 2018 (effectively superseded following the enactment of the PIA and the issuance of the Gas Flaring, Venting and Methane Emissions (Prevention of Waste and Pollution Regulations).
- Midstream Gas Flare Regulations 2023 (the Midstream Regulations)
- Gas Flaring, Venting, and Methane Emissions (Prevention of Waste and Methane Emissions) Regulations 2023 (the Midstream Regulations)

The Upstream Regulations and the Midstream Regulations represent the latest in a series of legislative measures which are aimed at reducing and ultimately eliminating gas flaring in the midstream and upstream sectors and promoting responsible gas utilisation and environmental sustainability.

Title to Flare Gas

The PIA 2021[2] vests in the Nigerian Upstream Petroleum Regulatory Commission (the "Commission") the right to take, free of charge and without payment of royalties, natural gas that would otherwise be flared at flare stacks.

The Upstream Regulations reinforce this, providing the Commission with authority to exercise such rights over upstream operations.

Similarly, the Authority, pursuant to the Midstream Regulations, may take flare gas free of charge in midstream operations. While the PIA is silent on the Authority's specific powers, the Midstream Regulations operationalise its role in line with the Act's broader regulatory bifurcation.

2 Section 105(2) of the PIA

Permits to Access Flare Gas

The regulatory framework provides for the issuance of permits for the commercialisation or utilisation of flare gas. Key points include:

- **Upstream Permits:** Granted by the Commission for one or more designated flare sites. Available to Nigerian companies or foreign investors incorporated locally under the Companies and Allied Matters Act 2020.
- **Midstream Permits:** Granted by the Authority to licensees or third parties, subject to submission of investment proposals and payment of prescribed application fees. Permits are typically granted for renewable one-year terms.

Successful bidders under the NGFCP are granted Permits to Access Flare Gas, which provide legal authority to capture and commercialise gas at designated flare sites, subject to regulatory compliance and coordination with upstream asset operators. However, a key consideration remains the absence of clear renewal criteria, which may affect the predictability and long-term bankability of Flare Gas Capture and Utilisation Projects.

Exclusive Access Under the Upstream Framework

The Upstream Regulations empower Commission to issue a Permit to Access Flare Gas on an exclusive basis. Such permits may cover one or multiple designated flare sites and are granted for the purpose of commercialising or otherwise utilising gas that would otherwise be flared.

The exclusivity component is commercially significant. It creates a defined right to a specific flare stream, thereby forming the regulatory anchor upon which investors can structure project financing. The duration of the permit is not open-ended; rather, it is tied to the period specified in the instrument itself.

The Upstream Regulations also contemplate foreign participation. A foreign entity may participate in the bid process and, if successful, may be awarded a permit. However, prior to operationalisation, such an entity must be incorporated locally under the Companies and Allied Matters Act 2020 (CAMA).

This requirement ensures regulatory oversight and local corporate presence, but it also introduces a structuring step that must be factored into transaction timelines. Importantly, the Upstream Regulations impose compliance obligations on upstream producers. Where a licensee or lessee fails to grant access to a flare site, declines to execute a required connection agreement, or neglects to provide operational logs and records, a monetary penalty may be imposed. While the stipulated fine (US$10,000) signals regulatory intent, its adequacy as a deterrent in large-scale upstream operations may invite debate.

US$10K

Failure to provide accurate/complete data

US$10K

Failure to grant site access / execute agreements

Access to Flare Gas Under the Midstream Regime

The midstream regulatory framework, administered by the Nigerian Midstream and Downstream Petroleum Regulatory Authority (the "Authority"), mirrors certain aspects of the upstream approach but introduces additional procedural elements.

Under the Midstream Regulations, a licence to access flare gas may be issued either to an existing licensee/permit holder or to an independent third party. Where a third party seeks access, the application must be supported by an investment proposal, demonstrating technical and commercial capability. An application fee of NGN100,000 is also prescribed.

Unlike the upstream framework, however, midstream permits are expressly limited to a one-year validity period, renewable for an additional one-year term. This shorter tenor may reflect the Authority's intent to retain tighter oversight, but it also raises material concerns for capital-intensive projects whose payback periods typically extend well beyond two years.

The Renewal Gap: A Bankability Concern

Both the Upstream and Midstream Regulations contemplate renewal of access permits. Notably, however, neither framework articulates clear criteria, objective benchmarks, or procedural safeguards governing renewal. There is no explicit statement that renewal is automatic upon compliance. Nor are there defined timelines, evaluative standards, or appeal mechanisms tied to renewal decisions.

From an investment perspective, this omission is not trivial.

Gas utilisation projects, whether modular processing plants, LPG extraction units, CNG compression facilities, or embedded generation plants, require significant upfront capital expenditure. Investors and lenders alike require predictable tenure over the feedstock that underpins revenue projections.

Uncertainty regarding renewal introduces a structural risk: a project may reach operational stability only to confront ambiguity regarding continued access to flare volumes. Without a transparent and rule-based renewal pathway, long-term debt structuring becomes more complex and, potentially, more expensive.

Grounds for Revocation: Comparative Position

The Upstream Regulations set out specific circumstances under which the Commission may revoke a permit. These include non-compliance with permit conditions and the intentional submission of inaccurate or misleading information. This establishes a conduct-based revocation model anchored on breach or misrepresentation.

However, the midstream regime adopts a broader approach. In addition to grounds similar to those found in the upstream framework, the Authority may revoke a permit where:

- The permit holder is dissolved or enters bankruptcy proceedings; or
- The purpose or continued operation of the permit would adversely affect health, safety, the environment, or the public interest.

The inclusion of public interest and insolvency-based triggers reflects a more expansive regulatory discretion at the midstream level. While such discretion aligns with safety and environmental oversight objectives, it also introduces an additional layer of risk that investors must evaluate. It is also noteworthy that revocation does not extinguish pre-existing obligations. A permit holder whose access rights are withdrawn remains liable for regulatory and contractual responsibilities accrued prior to revocation. This reinforces the need for careful compliance management throughout the lifecycle of the project.

Structuring Bankable Flare Gas Capture and Utilisation Projects in Nigeria

Winning a flare site under the Nigerian Gas Flare Commercialisation framework is often celebrated as the defining milestone. In reality, it is only the beginning. The real test lies in transforming an awarded flare site into a bankable project capable of attracting equity, debt, and in some cases, climate-aligned capital. Bankability is not theoretical.

It is the practical ability of a project to generate predictable cash flows under a legal and commercial framework that lenders can underwrite with confidence.

In Nigeria's upstream environment, this requires disciplined risk allocation, enforceable contracts, and deliberate regulatory engagement.

1. Gas Supply Certainty

Revenue projections in Flare Gas Capture and Utilisation Projects are volume-dependent. Without enforceable supply certainty, financial models become speculative, and lenders immediately discount projected revenues. The first layer of bankability is therefore a robust gas supply framework. This goes beyond securing a permit to access flare gas. It requires a binding and operationally workable gas supply or flare gas access agreement that clearly defines the connection point, delivery pressure, quality specifications, and responsibilities for compression and processing. Technical alignment with the upstream operator is critical because flare gas volumes are inherently linked to oil production levels. A reduction in oil output directly affects associated gas availability. Lenders may typically insist on reviewing historical production data for the relevant field, often covering multiple years, to test volume stability. When production profiles exhibit volatility, financial models must be built conservatively using downside-volume scenarios.

Supply interruption risk must also be addressed contractually. Flare Gas Capture and Utilisation Projects are physically integrated with upstream facilities, and shutdowns, whether planned maintenance or operational disruptions, are not uncommon. Agreements should therefore address force majeure, scheduled outages, unplanned disruptions, and compensation mechanisms. Where there is no minimum volume commitment or compensation regime, lenders will respond by shortening tenors, increasing pricing, or demanding higher equity contributions.

2. Offtake Security and Revenue Stability

Even with a stable gas supply, a flare gas project cannot achieve financial close without credible offtake arrangements. Having a buyer is insufficient. The buyer must be creditworthy, contractually committed, and commercially viable over the life of the debt. Flare gas monetisation models in Nigeria typically include power generation, LPG production, compressed natural gas, mini-LNG, or industrial feedstock supply.

Each model carries distinct commercial risks. Power projects, for instance, may face payment risk depending on the structure of the off-taker and market liquidity. Industrial supply arrangements depend on the continued solvency and operational stability of the buyer.

For lenders, revenue visibility is central. Offtake agreements should ideally align in tenor with the financing structure and include minimum contracted volumes or take-or-pay provisions. Merchant exposure, where revenues depend entirely on spot market sales, significantly reduces debt capacity and shifts risk to equity.

Credit enhancement mechanisms are often necessary in the Nigerian context. Where the offtaker lacks a strong balance sheet, lenders may require parent company guarantees, letters of credit, escrow structures, or debt service reserve accounts. Without these, projected cash flows will be treated as unsecured receivables rather than reliable debt servicing streams.

3. Project Vehicle and Financing Structure: Ring-Fencing Risk

Flare Gas Capture and Utilisation Projects are typically structured through dedicated Special Purpose Vehicles (SPVs). The objective is straightforward: ring-fence liabilities, isolate project risks, and create a clear asset and cash flow profile for lenders. Project finance structures often combine sponsor equity, commercial bank debt, development finance participation, and in some cases, climate or transition funding instruments. Given Nigeria's macroeconomic dynamics, foreign exchange exposure is a major consideration. If revenues are denominated in naira but financing is sourced in foreign currency, currency mismatch risk becomes a structural vulnerability. Hedging mechanisms, pricing indexation, or partial dollar-denominated contracts may be necessary to mitigate this exposure.

Repatriation and convertibility concerns also influence foreign investor participation. Clear regulatory approvals, compliance with foreign exchange regulations, and bankable security structures over project accounts are essential to attracting international capital. A credible security package typically includes fixed and floating charges over project assets, assignments of key contracts, share pledges over the SPV, and account control agreements. However, security is only meaningful where the regulatory environment supports enforceability. Predictability in regulatory oversight, therefore, directly affects financing appetite.

4. Regulatory Discretion and Approval Risk

While the PIA has strengthened institutional clarity within the Nigerian petroleum sector, regulatory discretion in approvals, inspections, and enforcement remains a practical reality. Projects must therefore be structured with realistic approval timelines built into construction and financing schedules. Delays in permits, inspections, or operational certifications can materially affect cost assumptions and debt drawdown timing.

Contracts and financing documents should anticipate potential regulatory variations by incorporating change-in-law protections and flexible compliance mechanisms. Investors must also implement robust internal compliance systems to manage reporting and monitoring obligations. Regulatory engagement should be proactive rather than reactive. Early dialogue with regulators reduces the risk of late-stage surprises that can disrupt financing timelines.

5. Upstream Operator Interface Risk

Flare Gas Capture and Utilisation Projects are physically integrated with upstream oil production assets. This creates operational interface risk that cannot be ignored. Site access rights, operational coordination procedures, safety compliance, and maintenance schedules must be clearly defined in binding agreements. Misalignment between flare gas operators and upstream producers can delay tie-ins, interrupt supply, or create liability disputes.

Stren & Blan Partners
www.strenandblan.com
contact@strenandblan.com

6. Environmental and Host Community Considerations

Liability and indemnity allocation are particularly important. Where incidents occur at the interface between facilities, responsibility must be contractually predetermined. Without clear allocation, disputes can escalate into prolonged operational shutdowns, which lenders view as a material risk.

Environmental compliance and host community engagement are not peripheral matters. Under the Petroleum Industry Act, host community development obligations are integrated into upstream operations, and Flare Gas Capture and Utilisation Projects operating within those ecosystems must align accordingly. Environmental Impact Assessment (EIA) requirements must be satisfied before construction and operations commence.

Beyond formal compliance, sustained community engagement reduces disruption risk. In Nigeria's operating environment, community disputes can halt projects irrespective of contractual strength. Bankability increasingly incorporates sustainability considerations. Development finance institutions and climate-aligned investors will assess environmental performance, community relations, and governance structures as part of their credit evaluation.

Conclusion

The NGFCP represents one of the most commercially significant gas reform initiatives in Nigeria's energy transition journey. Anchored within the framework of the Petroleum Industry Act, it signals regulatory intent to transform routine flaring from an environmental liability into an economic asset.

Yet the true measure of its success will not lie in policy articulation or flare site awards, but in the number of projects that achieve financial close and reach sustained operation. The pathway from flare site award to bankable infrastructure is where commercial discipline becomes decisive. Investors and lenders do not finance ambition; they finance certainty.

Gas supply must be technically verified and contractually secured. Revenue must be protected through enforceable and creditworthy offtake structures. Regulatory engagement must be structured and forward-looking, not reactive. Interface risk with upstream operators must be clearly allocated. Environmental compliance and host community obligations must be integrated into the project architecture from inception.

About Stren & Blan Partners

Stren & Blan Partners is a leading Nigerian commercial law firm with dedicated practices in Asset Recovery, Fraud Investigation & Enforcement, and Financial Services.

Our team has extensive experience representing international clients in cross-border fraud matters and works closely with law enforcement agencies, regulatory bodies and international counsel to achieve effective recoveries.

For enquiries regarding digital fraud recovery or asset tracing in Nigeria, please contact our Asset Recovery and Fraud Investigation team.

The Authors

OZIOMA AGU

Partner

OziomaAgu
@strenandblan.com

ANJOREOLUWA BOLUWAJOKO

Associate

AnjoreoluwaBoluwajoko
@strenandblan.com

DAVID OLAJIDE

Associate

DavidOlajide
@strenandblan.com

JUSTICE THEOPHILUS

Associate

JusticeTheophilus
@strenandblan.com

STREN & BLAN
PARTNERS

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road,
Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan