LEASE ACQUISITION AND RENEWALS: "THE NIGERIAN CASE STUDY"

NIGERIA COUNCIL
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Introduction

Looking Back

Licensing Rounds

Score Card and Lease Renewals

Conclusions

Definition

Lease (Oil and Gas):

A contract [right of ingress and egress] by which the owner [typically Government] of the mineral rights to a property (lessor), conveys to another party (lessee), the exclusive right to explore for and develop minerals on the property during a specified primary term, based on some [fiscal] terms and conditions including but not limited to:

- *bonus;*
- *Tenure; 1^o and 2^o ;*
- *Minimum Work Obligation;*
- *Royalty, Tax and other exactions;*

For this presentation, Lease covers OPL and OML but not OEL

Reference: Para 2, First Schedule to the Petroleum Act.

Statutory Provisions, Asset Acquisition and Renewal *[Petroleum Act 101]*

- ***Grant:***
  - ***Block or concession by the Honourable Minister as per Paragraph 2 of the Act;***
  - ***Marginal Field by the President and Commander in Chief or Holder of Oil Mining Lease (OML) subject to the approval of the President (Paragraph 17 of First Schedule)***
- ***Assignment: by Holder of Oil Mining Lease upon meeting stipulated conditions and the consent of the Honourable Minister (Paragraph 14 of First Schedule);***
- ***Renewal: upon meeting all obligations related to the Oil Mining Lease (Paragraph 13 of First Schedule)***
- ***Revocation: owing to several infringements including poor activity performance (Paragraphs 23 & 24 of the Act)***

SALIENT FOCUS OF PRESENTATION

1 Goals

- Factors that crystallised in the initiative; licensing and renewal

2 Processes

- Granting, renewal and revocation of licences and applicable terms

3 Frequency

- Regularity of the licensing rounds and impact on potential investors

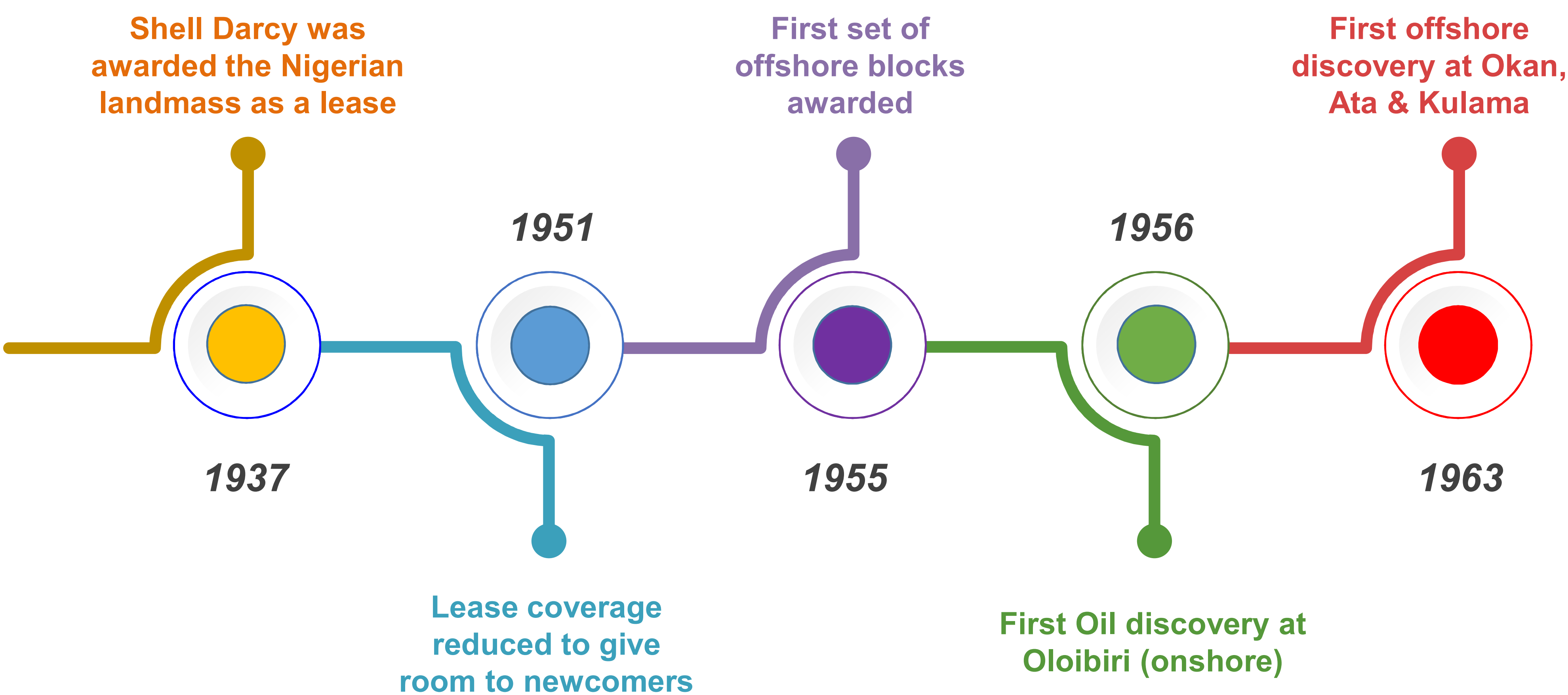
4 Benefits

Benefits accruing to the country and the industry from the process

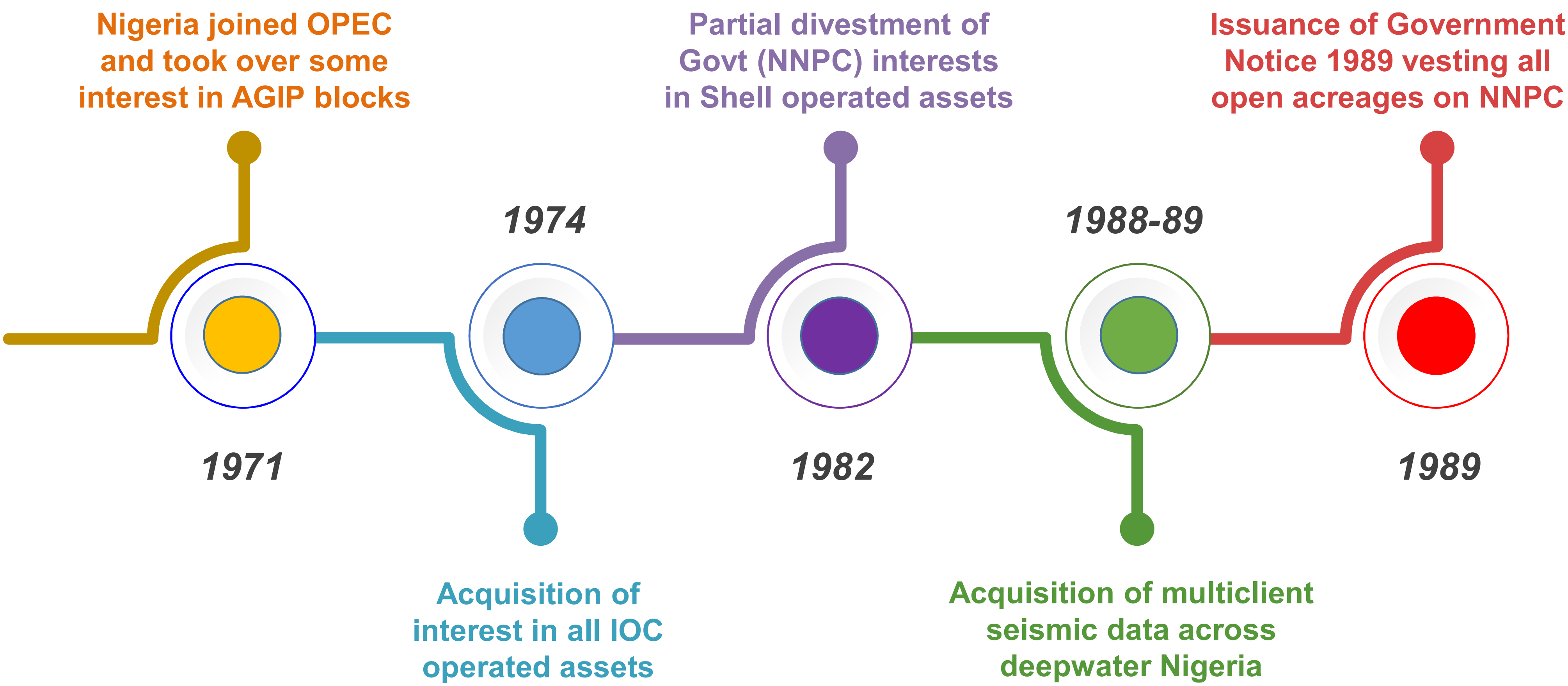
5 Indigenous Participation

- Level of participation of indigenous entities and their score-card

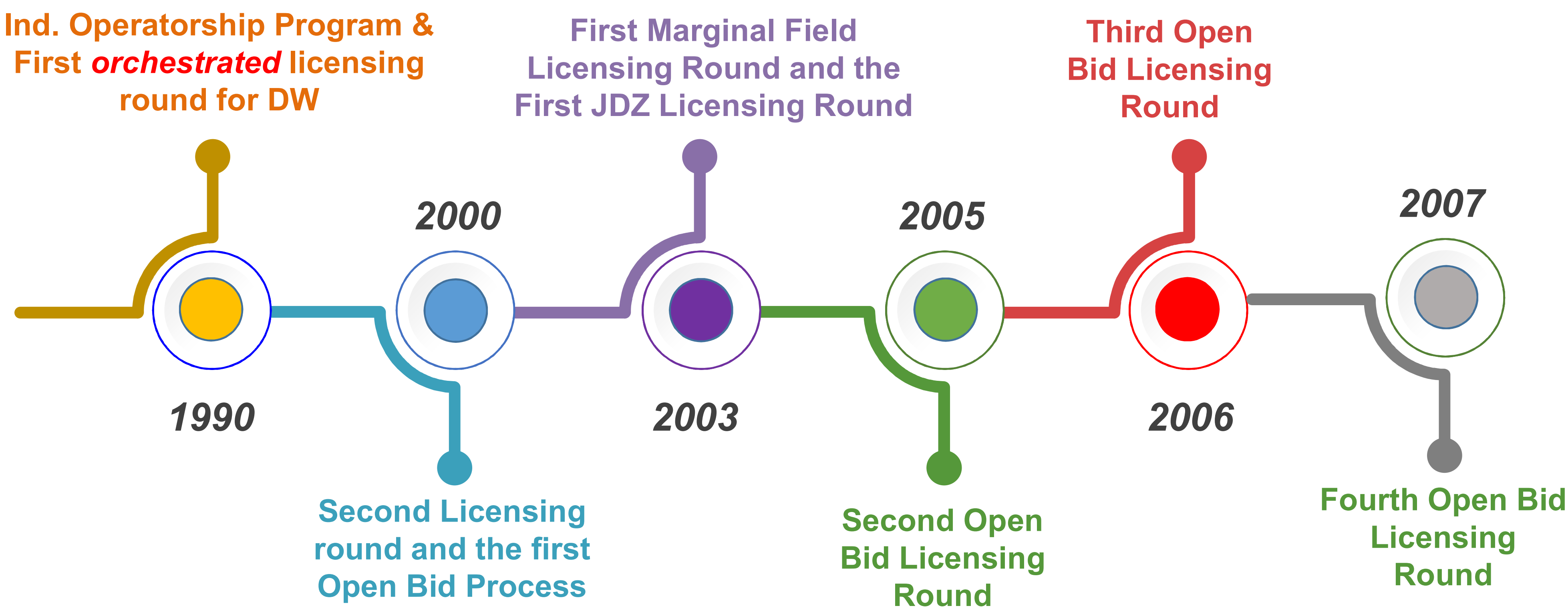
Historical Perspectives



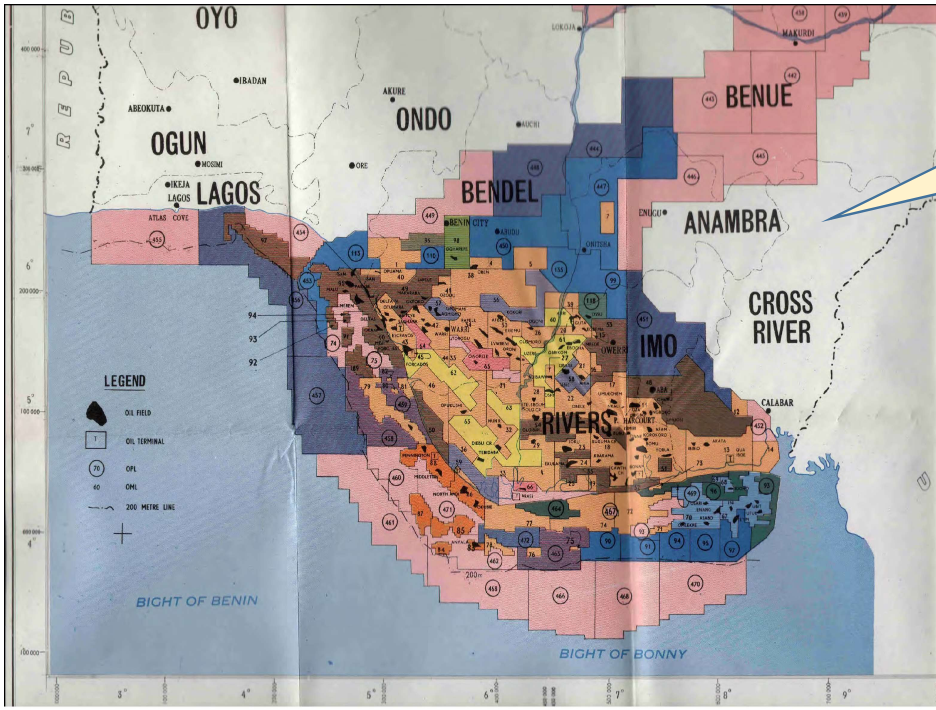
Historical Perspectives



Lease Acquisition And Renewals: The Nigerian Case Study

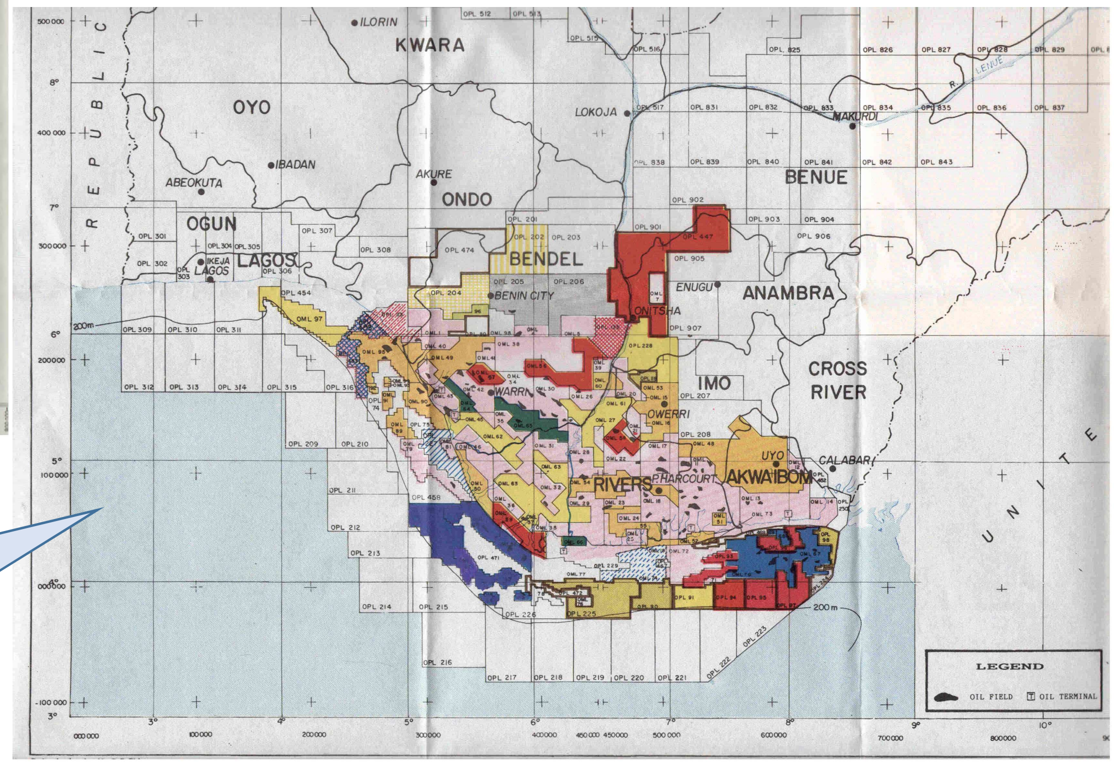


PROGRESSION IN EXPLORATION AND PRODUCTION ACTIVITIES IN THE NIGER DELTA



1980 ACTIVITY MAP OF THE NIGER DELTA SHOWING THE LIMIT OF OFFSHORE ACTIVITIES

Source: DPR Annual Report, 1980

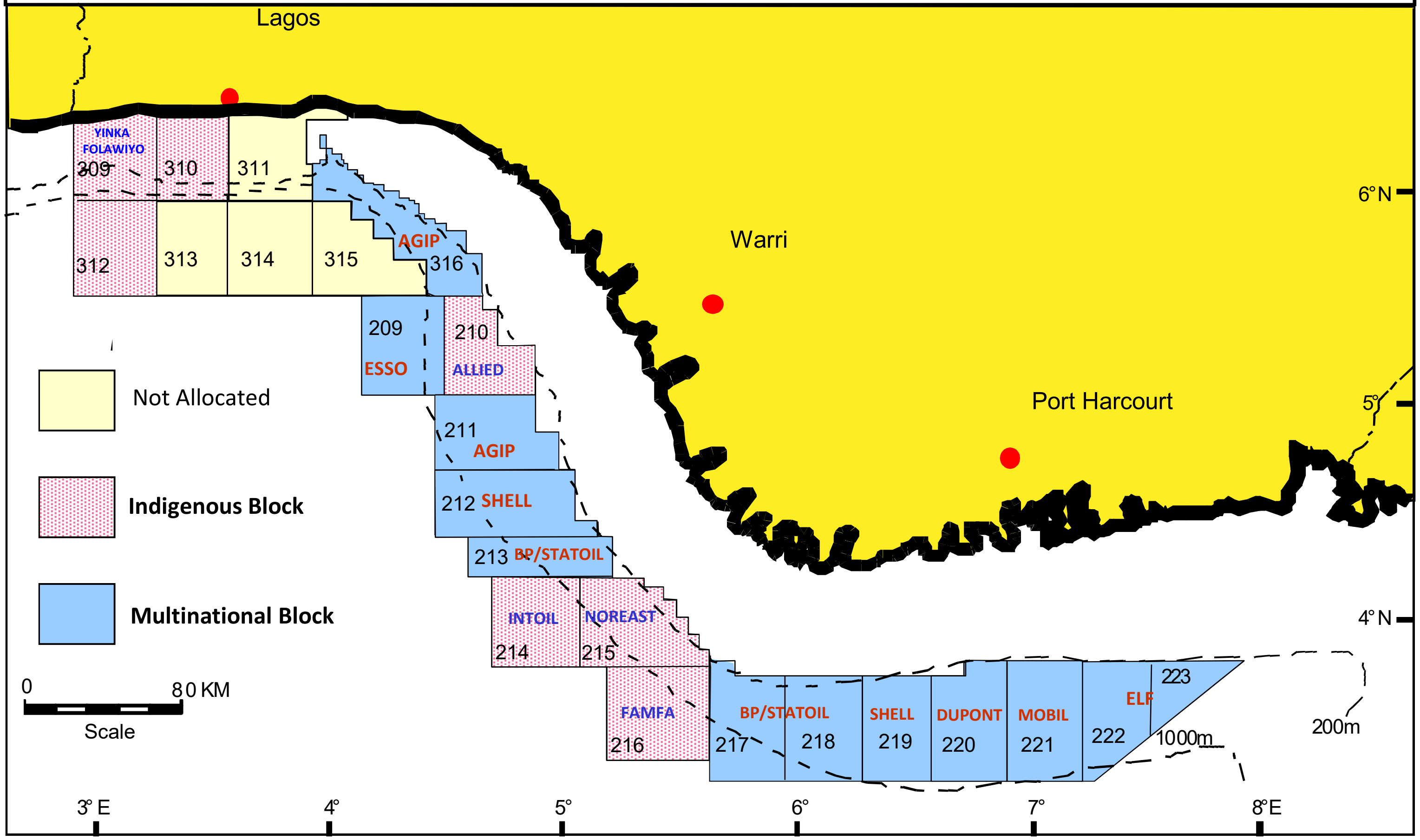


1990 ACTIVITY MAP OF THE NIGER DELTA SHOWING THE INITIAL FORAY INTO DEEP WATER

Source: DPR Annual Report, 1990

COMMENCEMENT OF LICENSING ROUNDS – THE 1990 DEEPWATER INITIATIVE

1990 DEEP WATER ACREAGE ALLOCATION



PECULIARITIES

- Blocks allocated by negotiation as opposed to bidding;
- Blocks allocated in 1990 but PSC agreement was not reached until 1993
- PSC Act put in place in 1999 with effective date of 1993

Comment

Licensing Round: Yes

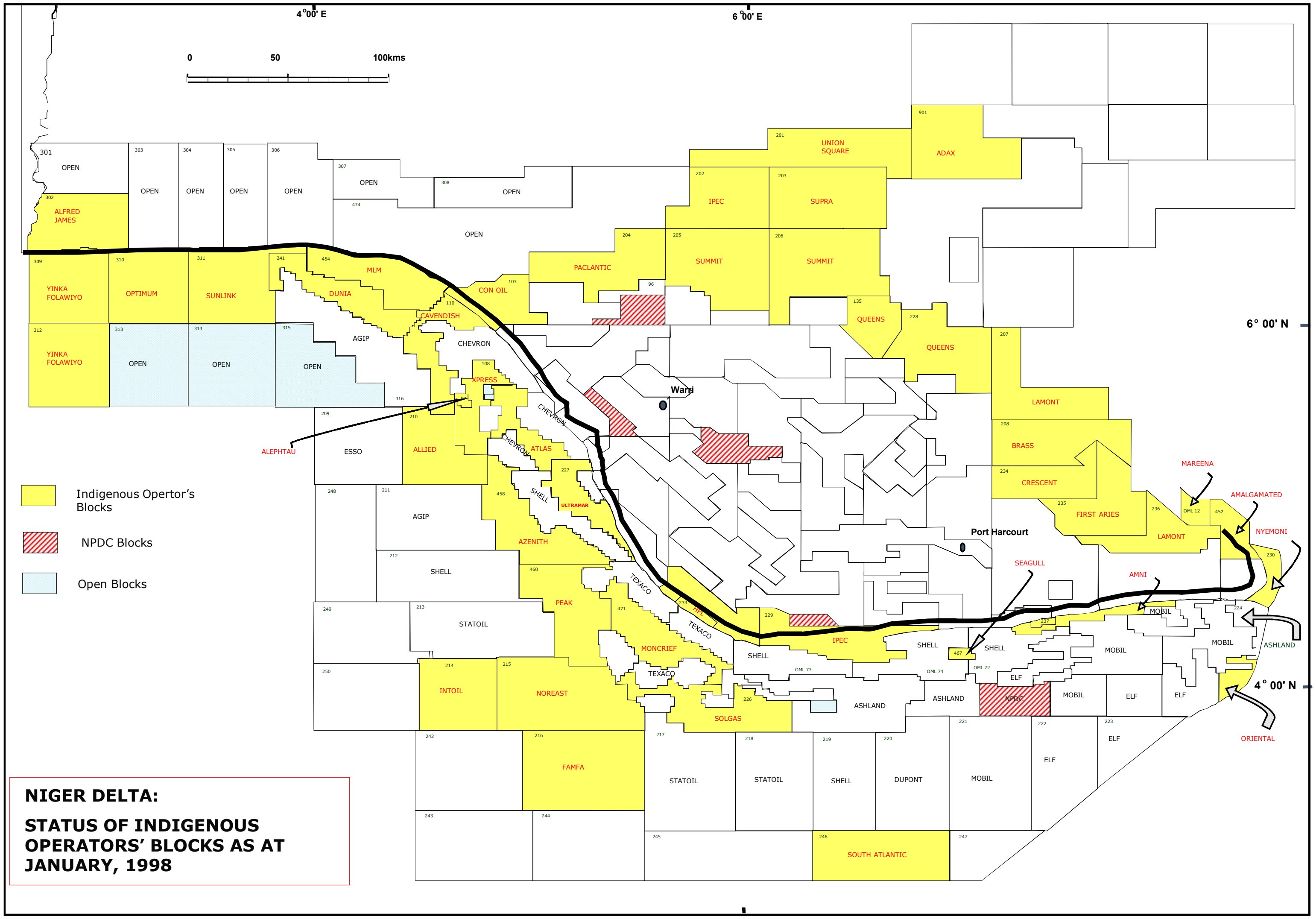
Bidding Round: Not quite

Award Summary

Indigenous Companies: 7

Multinationals: 12

INDIGENOUS OPERATORSHIP PROGRAM: 1990 – 1999 [Licensing Round (?)]



HIGHLIGHTS

- Indigenous Operatorship Program (IOP) inaugurated in 1990
- Program sequel to Government Note of 1989 that vests all open blocks on NNPC
- Blocks were assigned on the basis of perceived capabilities
- Blocks awarded on Sole Risk basis

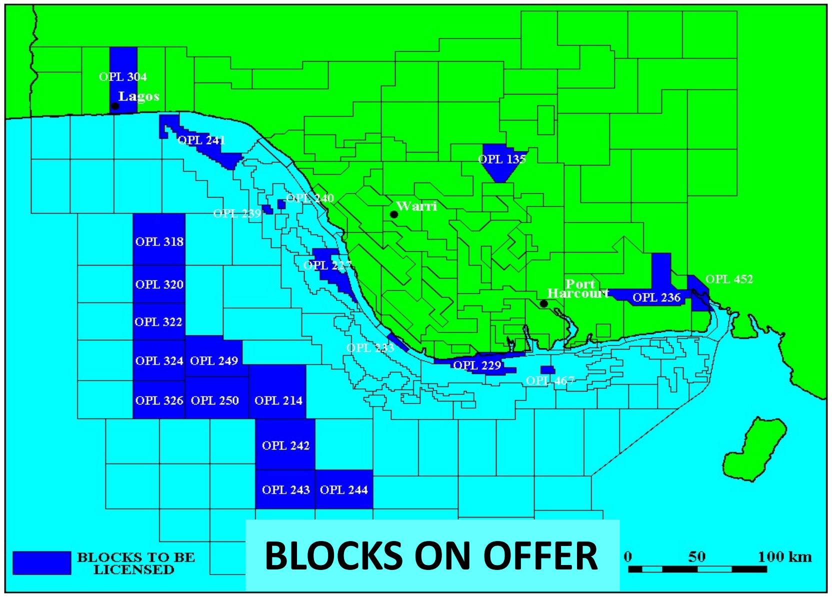
SHAKE UP IN THE IOP INITIATIVE: MASSIVE REVOCATION OF DORMANT BLOCKS

LIST OF BLOCKS WITHDRAWN FROM INDIGENOUS OPERATORS AS PUBLISHED IN THE GUARDIAN NEWSPAPER OF 1ST FEBRUARY, 2000

S/No	BLOCK No	AWARDEE	DATE AWARDED
1	135	Queens	Sep-90
2	201	Union Square	Jun-91
3	202	IPEC	Sep-90
4	203	Amalgamated	May/July 1991
5	204	Africoil & Mar	Aug-93
6	207	Lamont Oil	Dec-92
7	208	Brass Petroleum	Aug-93
8	227	Ultramar Energy	Sep-90
9	228	Queens Petroleum	Aug-93
10	233	Petroleum Products Ltd.	Nov-90
11	234	Crescent Oil Limited	Aug-93
12	235	First Aries	Aug-93
13	236	Asaris	Aug-93
14	239	Alephtau International	Aug-93
15	240	Brass Petroleum	Aug-93
16	241	Obekpa Petroleum	Aug-93
17	301	Mc Bel	Aug-93
18	304	General Oil	May/July 1991
19	307	Divine Oil	Aug-93
20	312	Divine Oil	Sep-93
21	452	Amalgamated Oil	Jan-92
22	454	MLM Petroleum	Aug-93
23	467	Seagull	Jun-91
24	471	Moncrief	Jun-91
25	474	Sunlink	1993
26	833	Sason	Jul-93
27	834	Arewa	Aug-93
28	841	Arewa	Aug-93
29	901	Addax & Onyx	Aug-93
30	903	Addax & Onyx	Sep-93
31	907	Seawolf	Aug-93

Note: 229 was not in the publication, was it added at a later date?

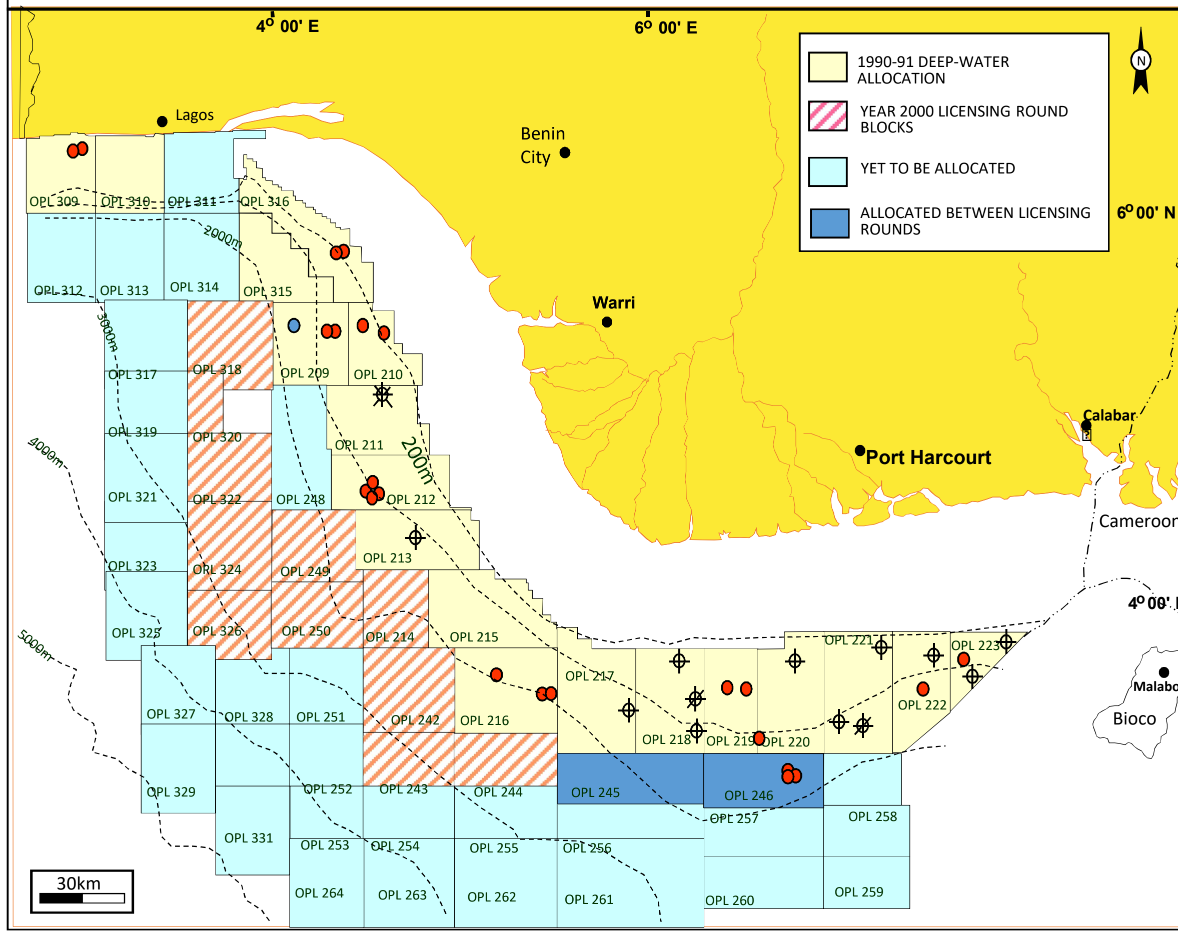
YEAR 2000 LICENSING ROUND BASED LARGELY ON DEEPWATER BLOCKS



HIGHLIGHTS

- Perhaps, the first true bidding round
- Award predicated on 1993 Production Sharing Contracts (PSC) Terms amended in 1999

DEEP WATER ACTIVITY PERFORMANCE AND YEAR 2000 BIDDING BLOCKS

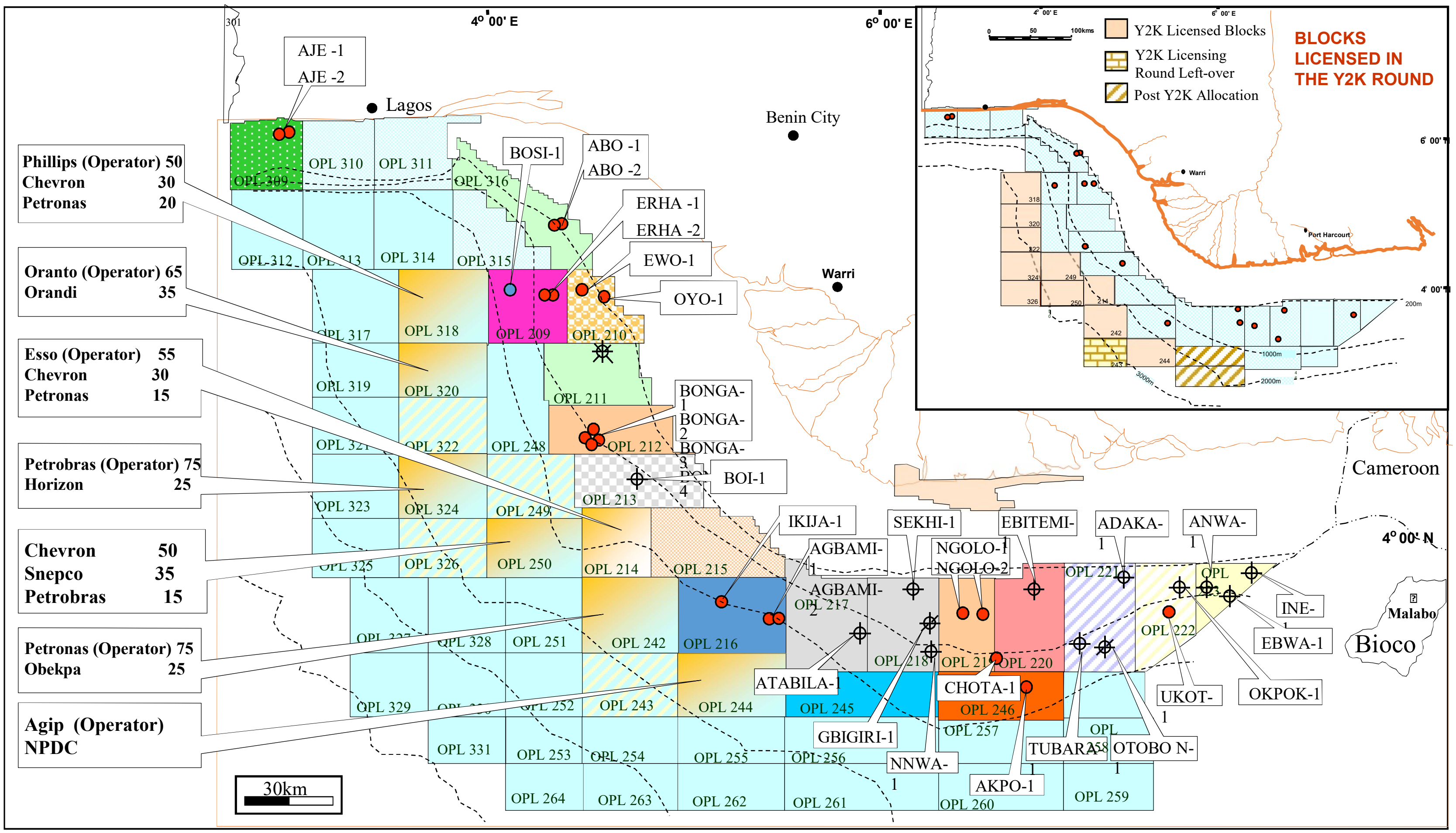


Award Summary

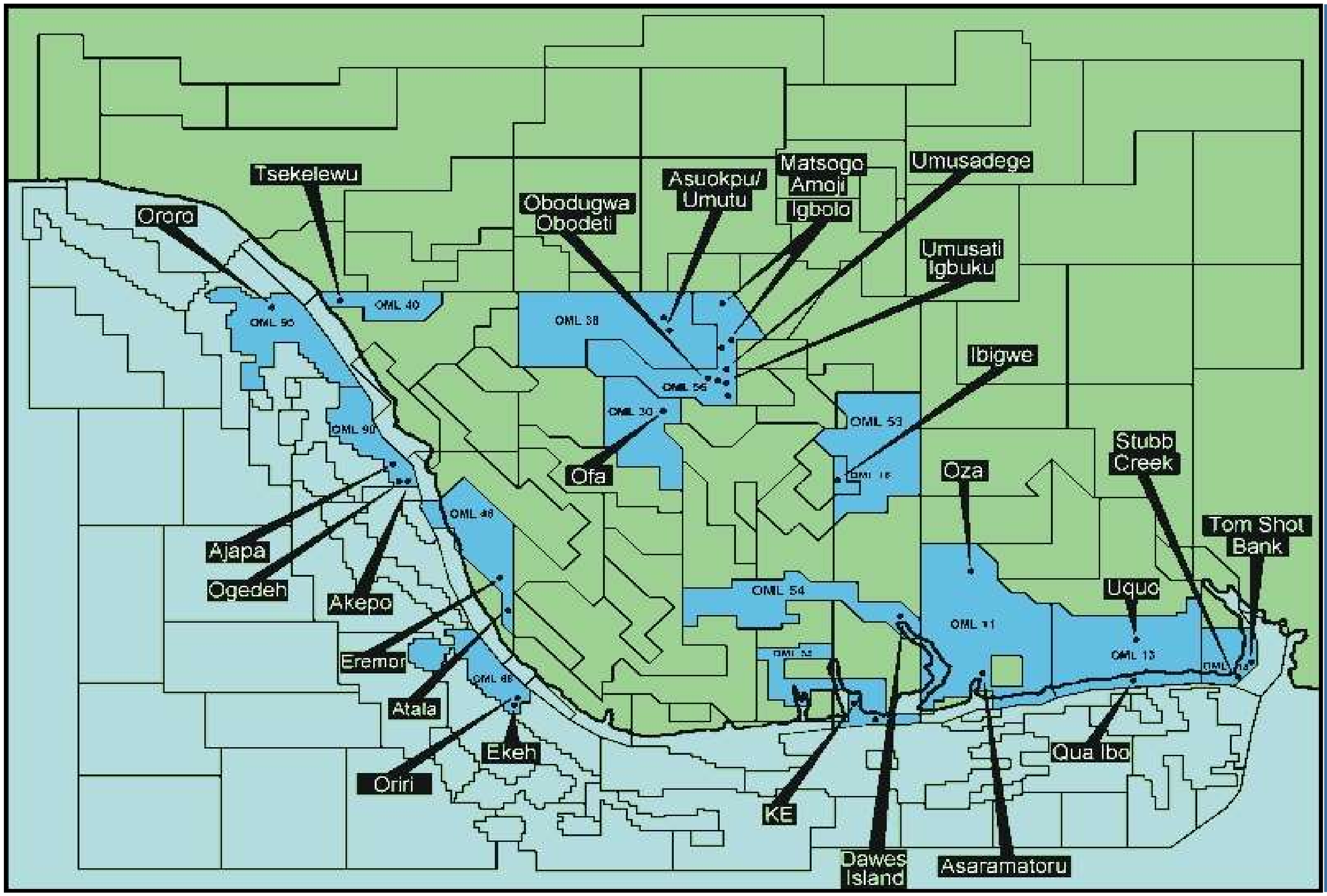
Indigenous Companies: 7

Multinationals: 12

YEAR 2000 LICENSING ROUND DEEPWATER AWARDEES



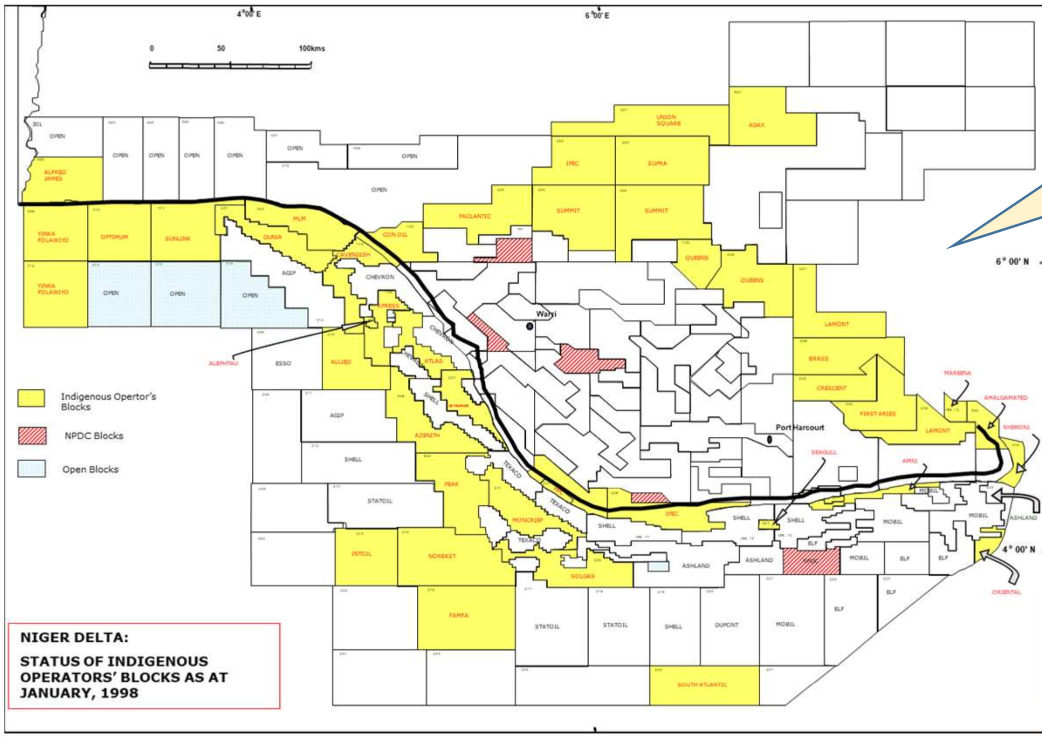
MARGINAL FIELD LICENSING ROUND 2001 - 2003



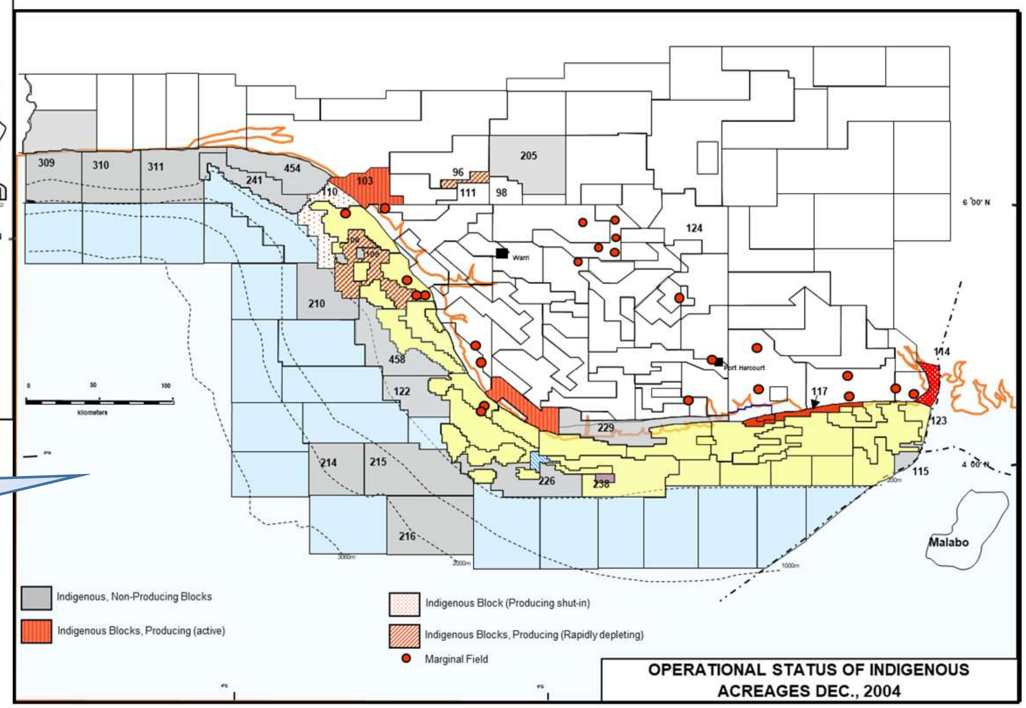
HIGHLIGHTS

- Very elaborate bidding process spanning three year (2001 – 2003 incl);
- Bidding was not based on highest bidder, rather, it was a four-stage process including company pre-qualification, technical and commercial tendering as well as presentation;
- All awardees are indigenous coys and paid the same amount for each marginal field awarded

CHANGES IN INDIGENOUS ASSET HOLDINGS: 1998 - 2004

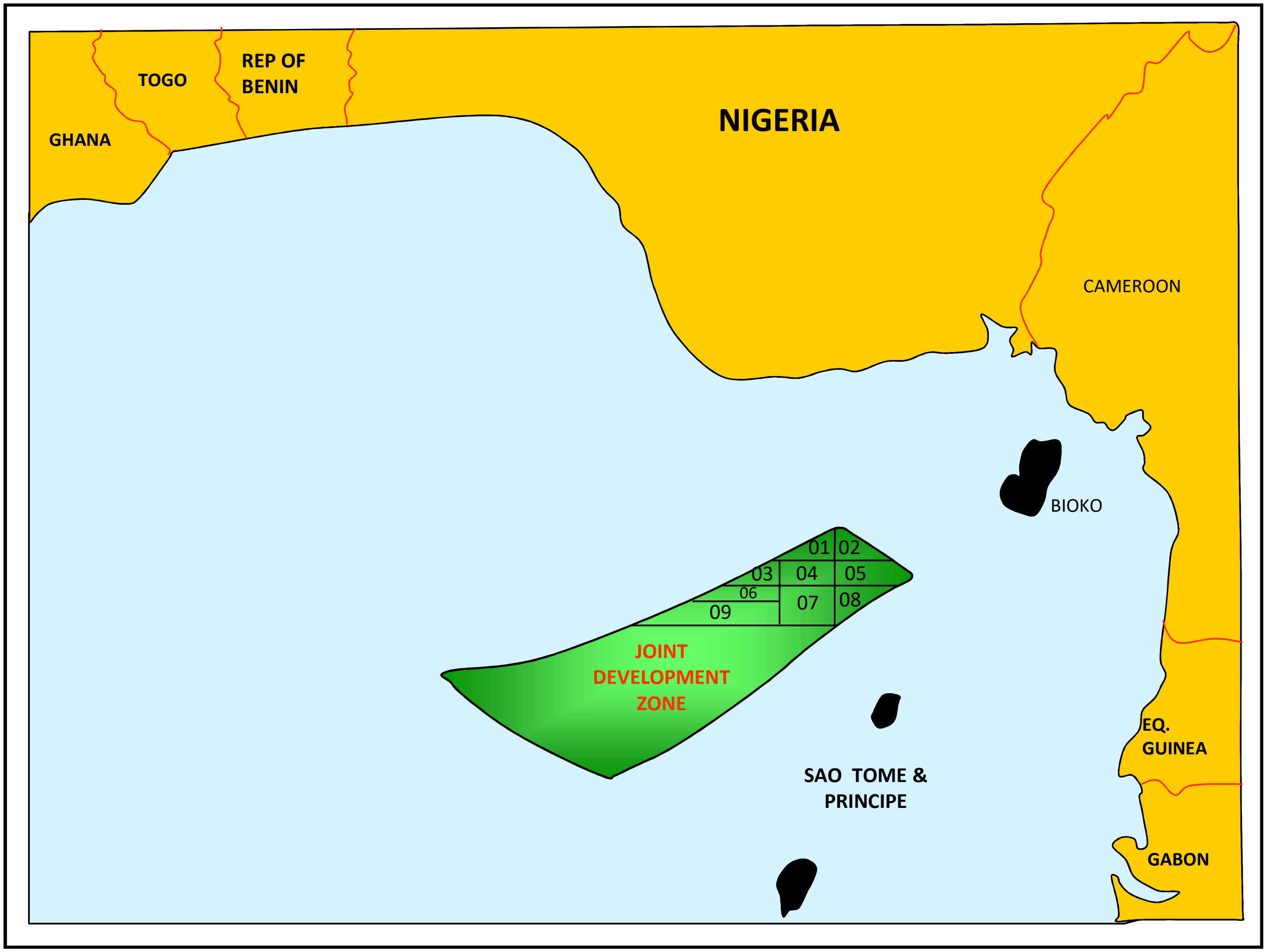


1998 INDIGENOUS ACREAGE HOLDING IN THE NIGER DELTA



2004 INDIGENOUS INTEREST HOLDING (BLOCKS AND MARGINAL FIELDS) IN THE NIGER DELTA

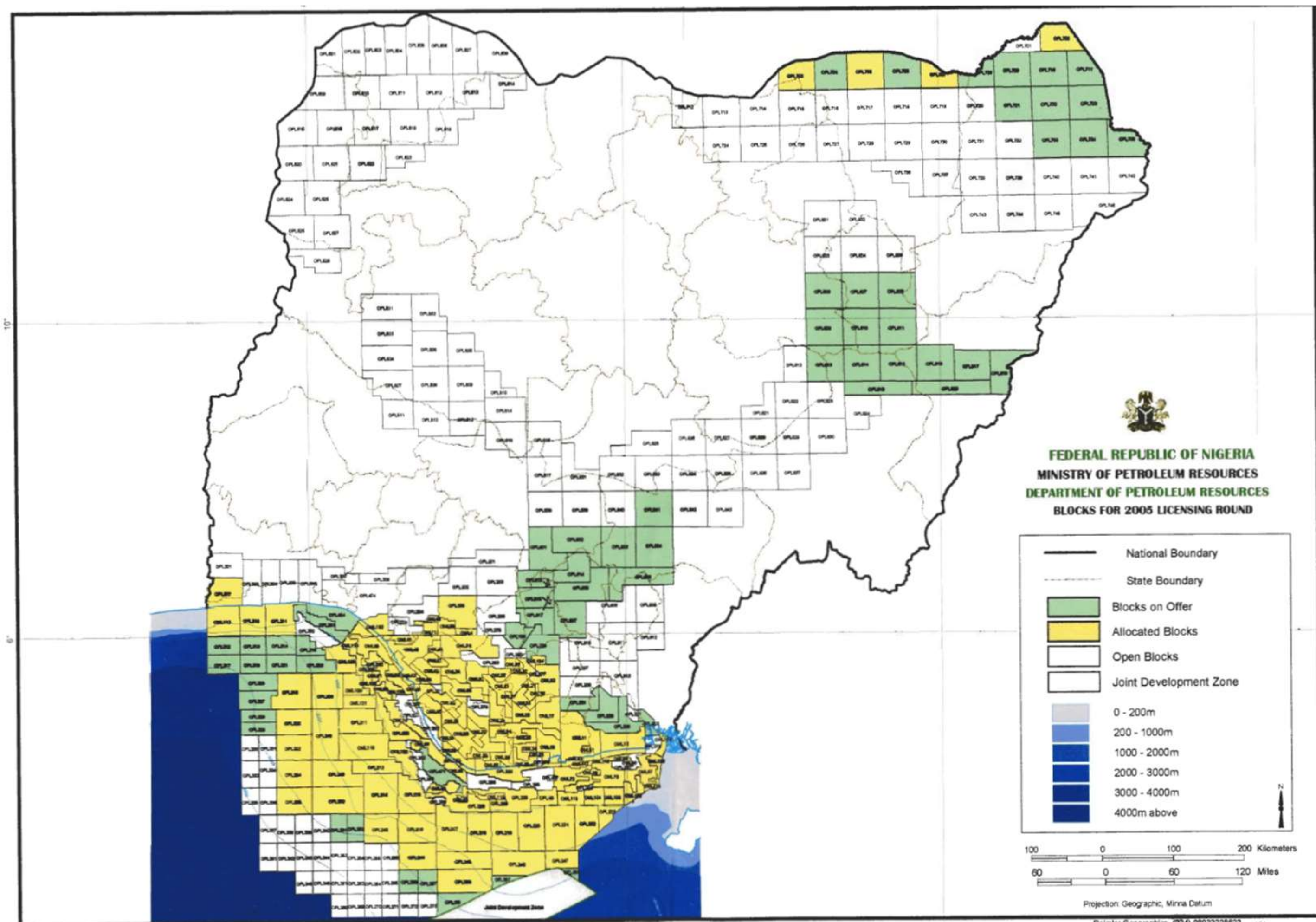
JOINT DEVELOPMENT ZONE (JDZ) LICENSING ROUND: 2003, 2004



HIGHLIGHTS

- Very well orchestrated bidding process involving Nigeria and Sao Tome and Principe
- Nine blocks put on offer but only one was awarded
- A repeat bidding process was carried out in 2004 in which the other eight blocks were awarded but only five paid Signature Bonus

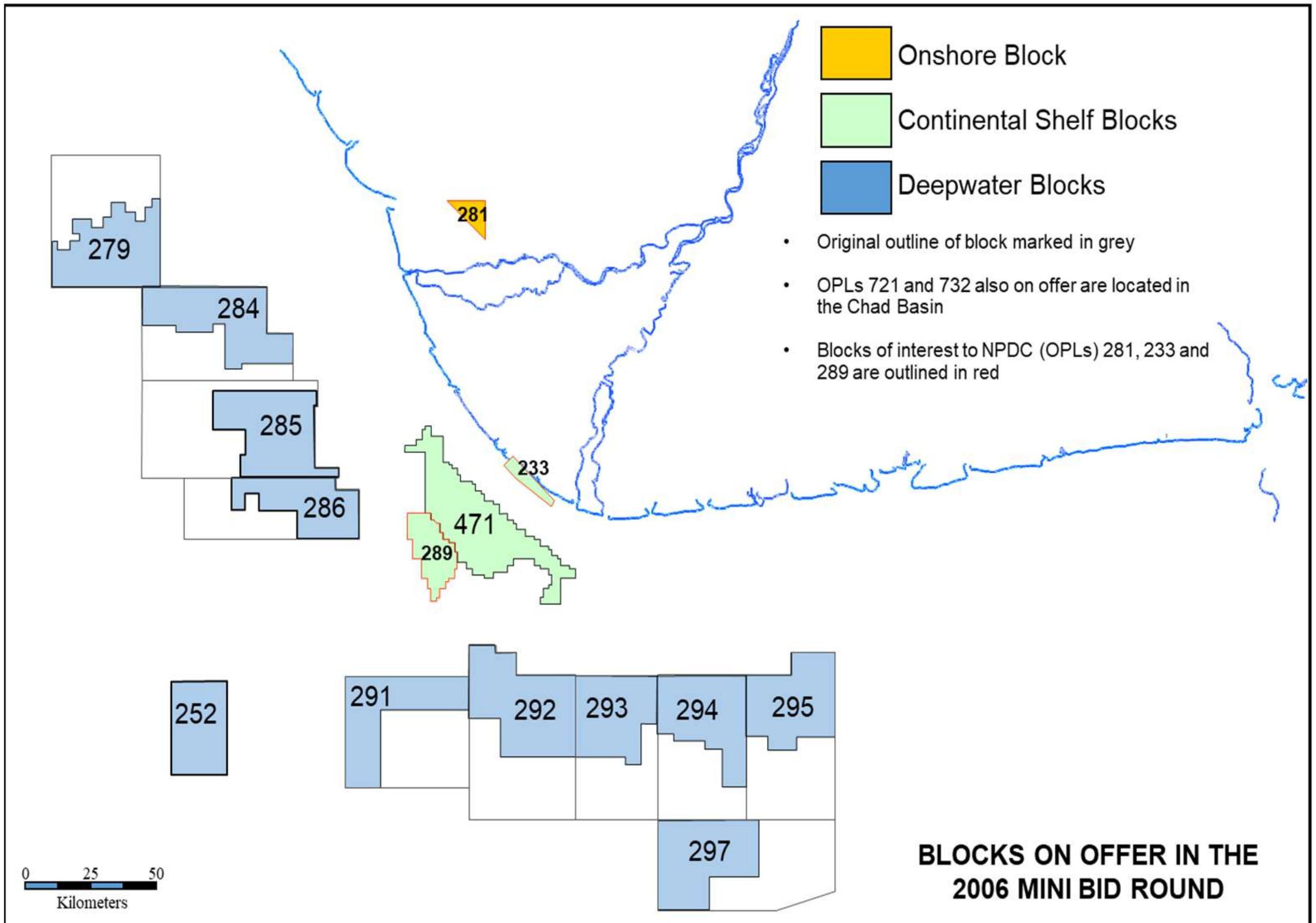
2005 LICENSING ROUND INVOLVING FOUR BASINS
(NIGER DELTA, ANAMBRA, BENUE AND CHAD)



HIGHLIGHTS

- Process similar to Year 2000 exercise
- Award tied to funding downstream projects including refineries, pipeline construction, etc.
- Fiscal term differs from the provisions in the 1999 PSC and Inland Basin Act;
- No awardee carried out any of the linkage downstream projects

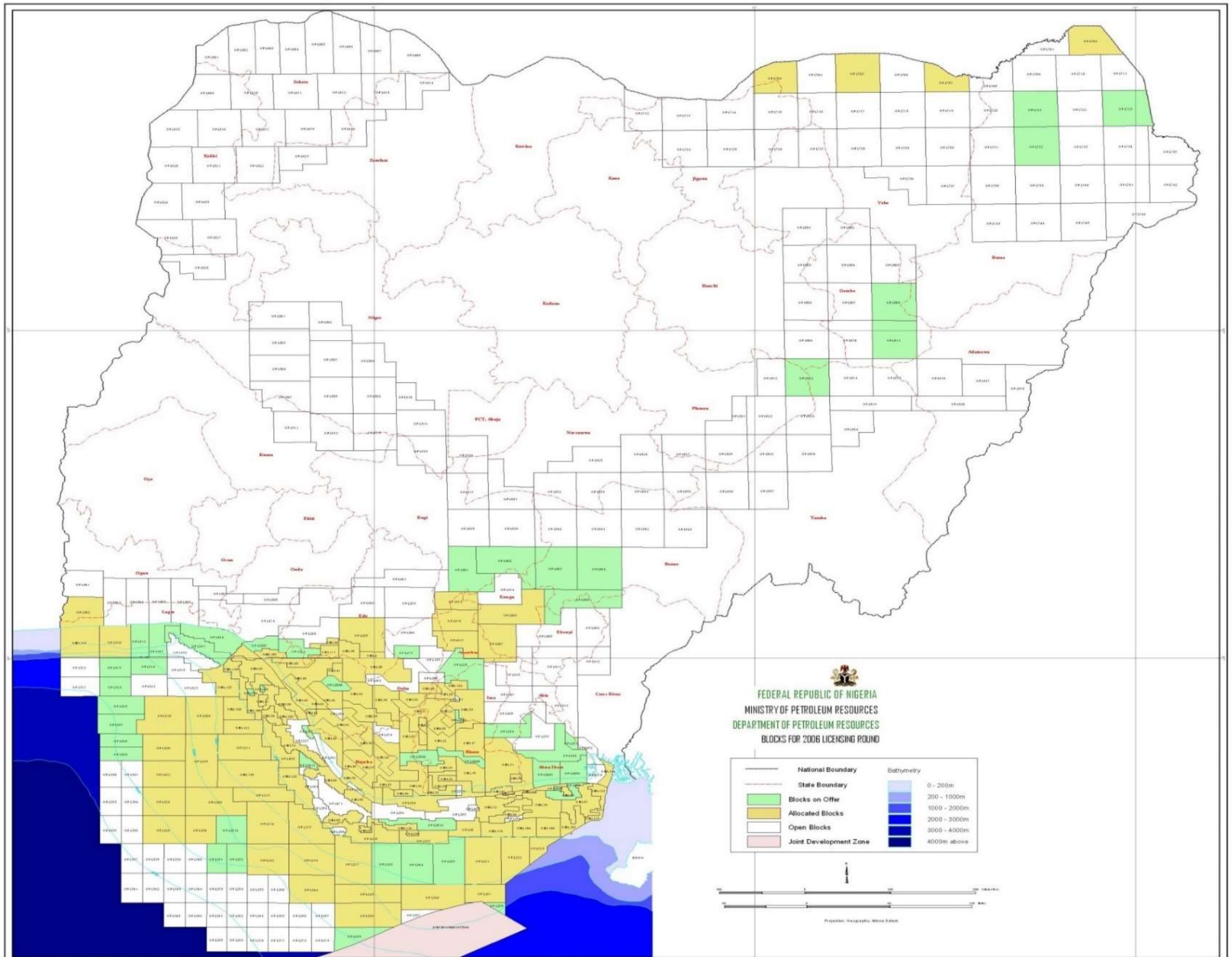
2006 LICENSING ROUND FOCUSED MAINLY ON THE DEEP OFFSHORE



HIGHLIGHTS

- Process similar to Year 2005 exercise
- Award based on matching [hidden] offers made by pre-selected bidders who had the right of first refusal (ROFIR)
- ROFIR introduced controversy and contention
- None of the blocks has witnessed any significant level of activities

2007 LICENSING ROUND WITH A WIDE SPREAD ACROSS SEVERAL BASINS



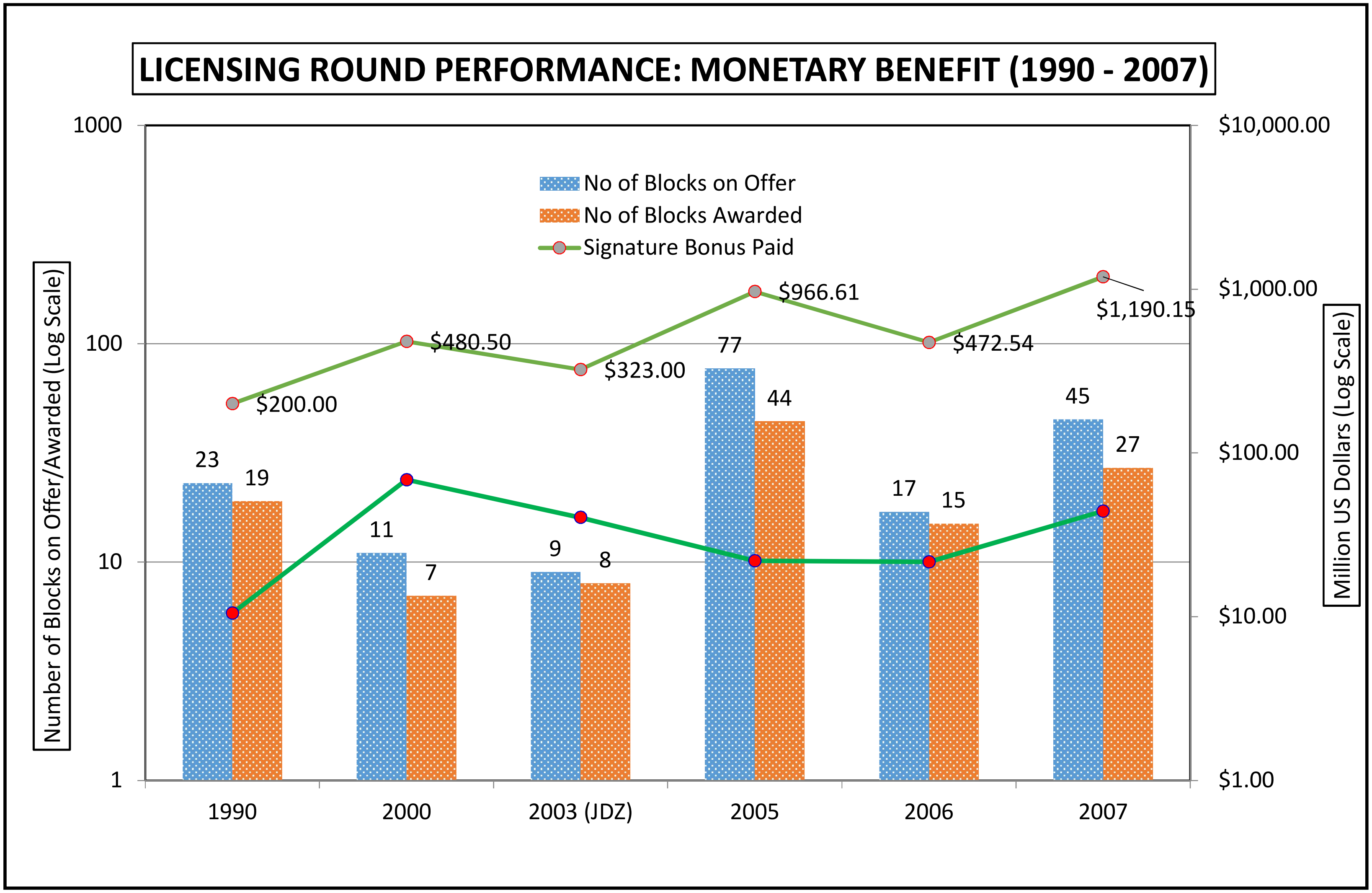
HIGHLIGHTS

- Process similar to those of 2005 and 2007;
- Award introduced Local Content Vehicle (LCV) in which local entities has 10% (carried?) interest in deepwater blocks;
- Most LCVs were industry neophytes and a number of them entered the process without company registration;
- The LCV concept has continued to be controversial and contentious

POSSIBLE GOALS OF LICENSING ROUNDS (1990 – 2007)

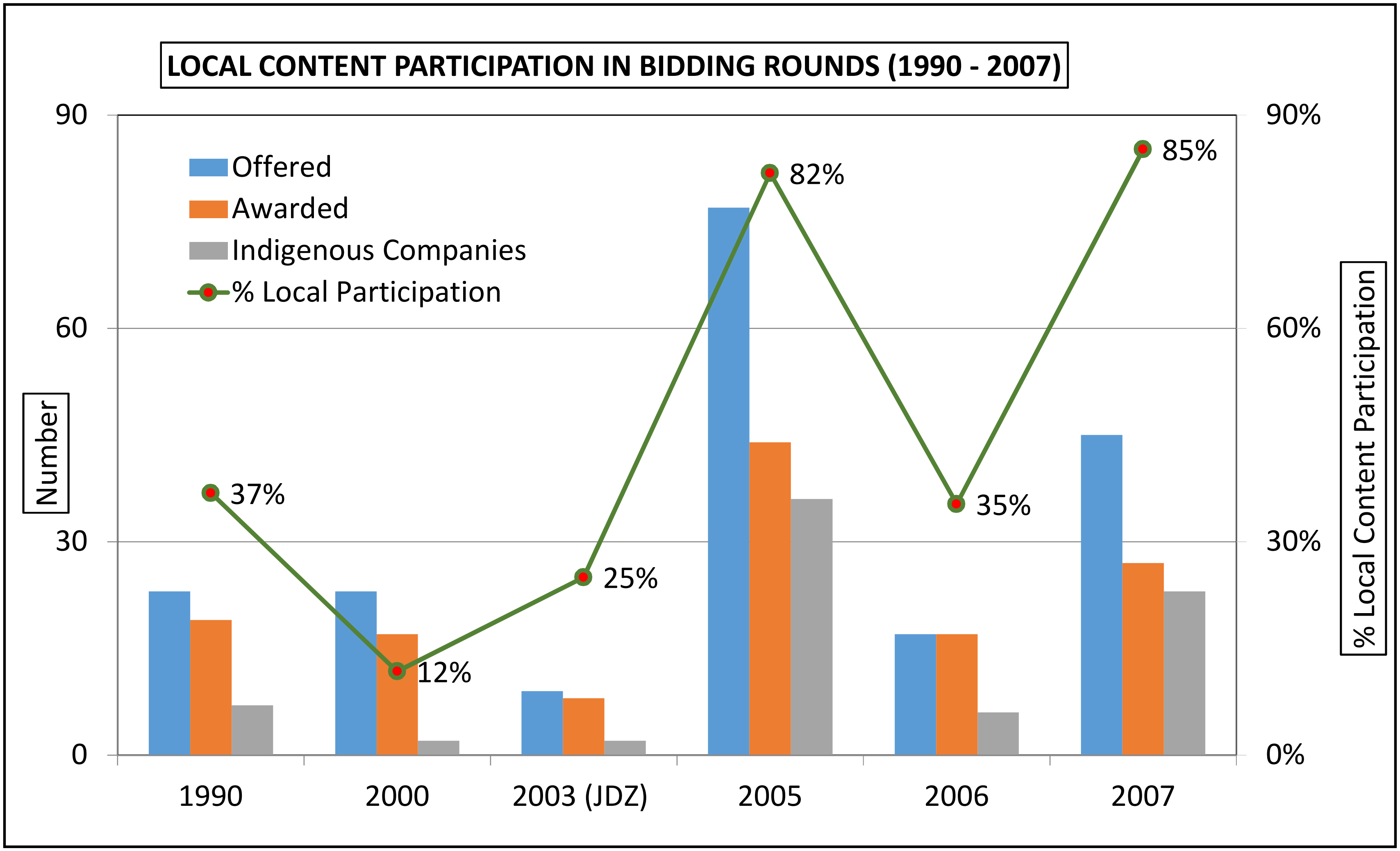
LICENSING ROUND YEAR	POSSIBLE GOALS/DRIVERS
1990	Deepwater Initiative and Indigenous Drive
2000	Deepwater expansion
2003	JDZ Collaboration/Deepwater attraction *Marginal Field Round Award
2005	Financial Benefits and Investor Attraction
2006	Financial Benefits and Investor Attraction
2007	Financial Benefits and Investor Attraction

APROXIMATE REVENUE EARNINGS FROM BIDDING ROUNDS (1990 – 2007)



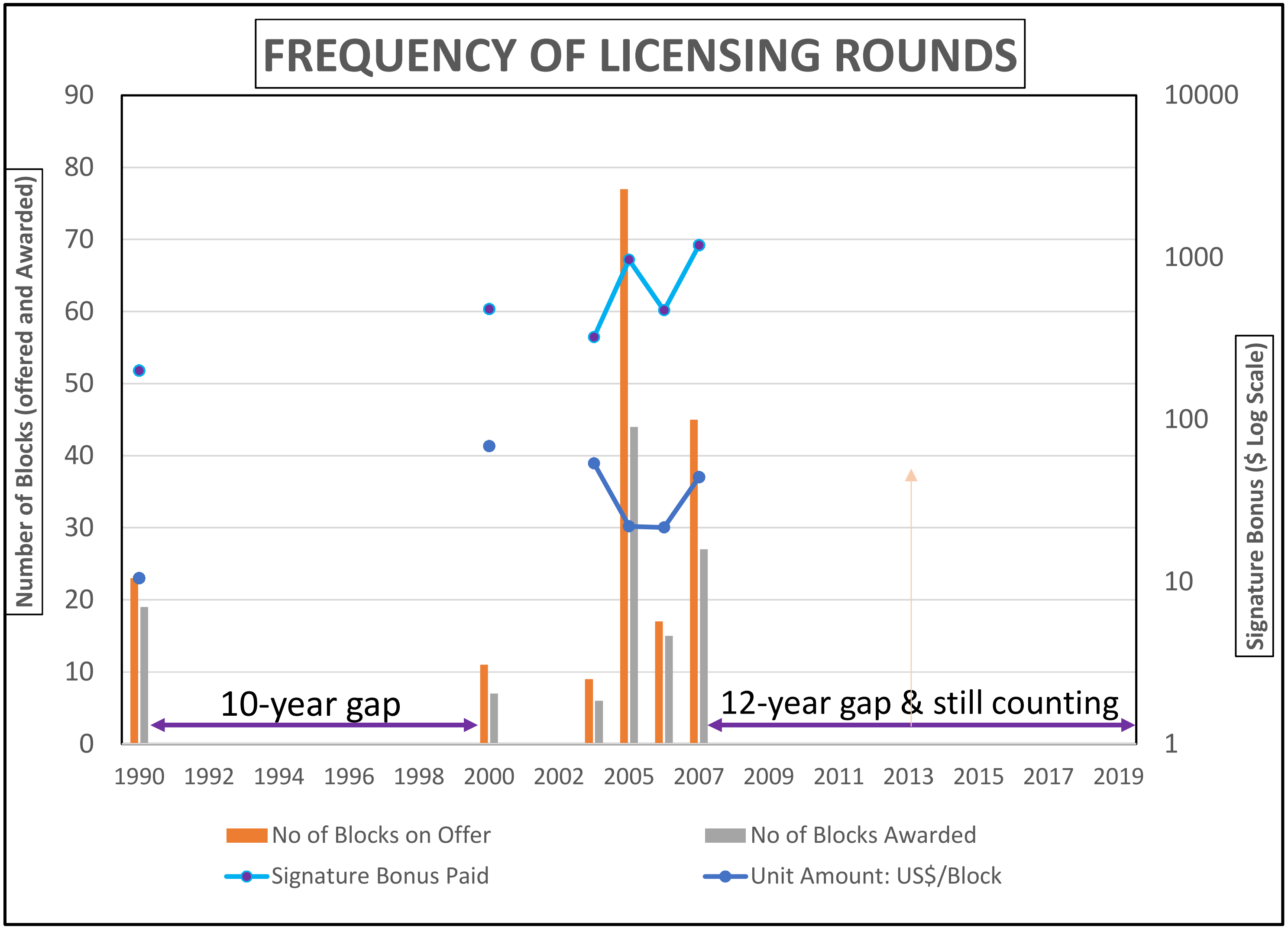
Over $3billion earned from the six licensing rounds

PARTICIPATION OF INDIGENOUS COMPANIES IN LICENSING ROUNDS: 1990 - 2007



Successive licensing rounds showed significant participation of Nigerian companies

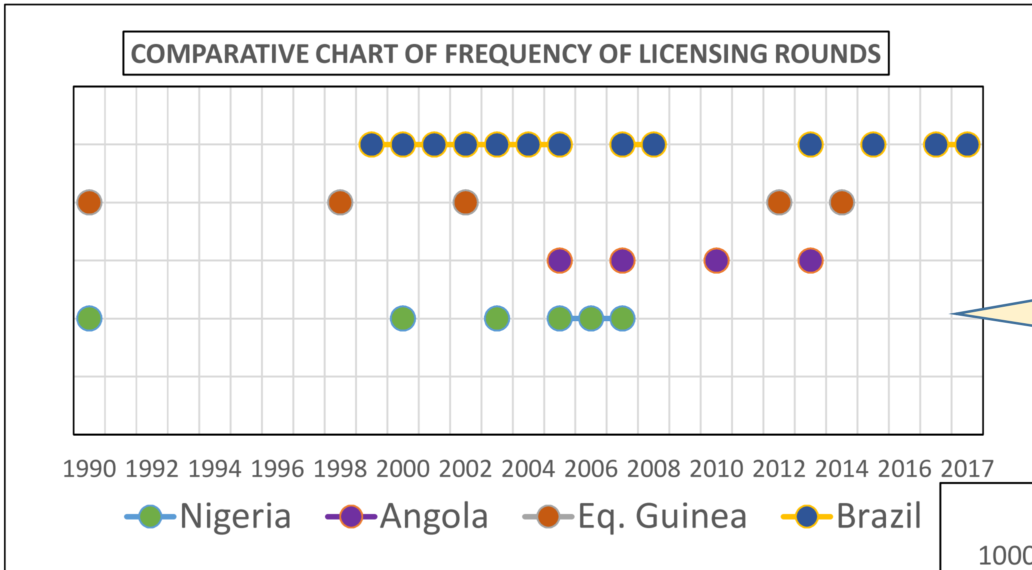
FREQUENCY OF LICENSING ROUNDS (1990 – 2019)



HIGHLIGHT

Only six licensing rounds have taken place over a period of twenty-nine (29)years

COMPARISON WITH PEER (?) COUNTRIES

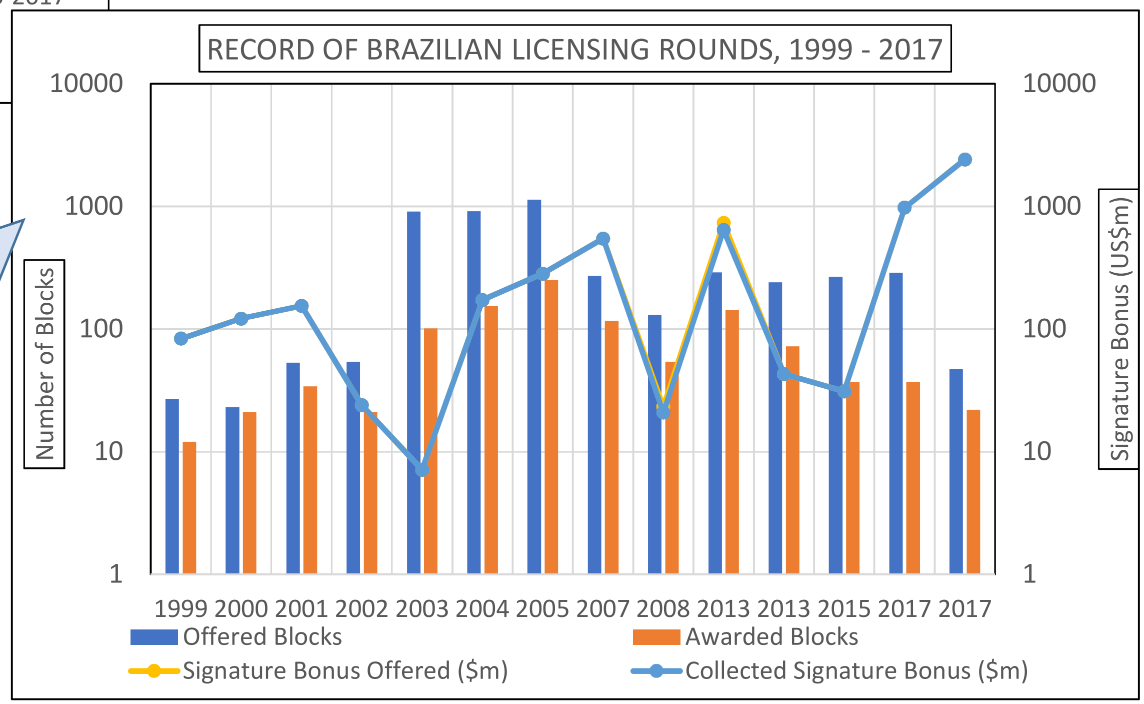


Comparative chart of Frequency of Licensing Rounds among peer countries (1990 – 2017)

Record of Brazilian Licensing Rounds (1999 – 2017)

Over US$5billion earned from Signature Bonuses alone, derived from 14 bidding rounds conducted over a period of 18 years

Source: ANP



RENEWAL OF LEASES, ISSUES AND COMPLICATIONS

CHANGING POLICY IN LEASE ADMINISTRATION

1. The Petroleum Act provides for OPLs and OMLs to be renewed upon the Holder meeting the obligations attached to the blocks in question

2. OPLs have a tenure of five years, except for the deep-water which is ten years while OMLs have a tenure of twenty years after which it can be renewed upon application by Holder

3. Initially, blocks were largely renewed upon application by the Holders but in 2009, the Ministry introduced payment of Fees which is calculated on the basis of existing reserves of the block

4. The introduction of fees which basis are not stipulated in any policy document was a cause for concern to many operating companies as the fees had to be negotiated

5. Companies now the tendency to renew blocks several years ahead of their expiry dates as to guaranty project life-cycle and give comfort to investors as well as financial institutions

GAINS & BENEFITS

A) Monetary Benefits – The six licensing rounds carried out over a period of twenty-nine years yielded over $3billion not minding the refund of signature bonus made to some companies while several millions is being earned from renewal of blocks, especially in the conventional terrain

B) Investor Focus/Attraction – The licensing rounds brought the Nigerian basins into focus and attracted a number of investors, except that a number of them also quit over several irreconcilable issues

C) New Block Renewal Policy – Ensured that operators focus on meeting their obligations than risk losing the blocks on account of poor performance

D) Empowerment of Local Companies – The Indigenous Operatorship Program has increased the number of Nigerian exploration and production companies, most of which invariably gained experience and expertise from operating marginal fields

ISSUES & CHALLENGES

A) Inconsistent Policies – Protracted period without licensing rounds, tying awards to linkage projects and introduction of LCVs and similar policies may have adversely impacted the reaction of foreign investors

B) Lease Administration – Lease administration has fallen short of enforcing award guidelines as awardees, especially indigenous companies, continue to hold on to acreages even without payment of signature bonus;

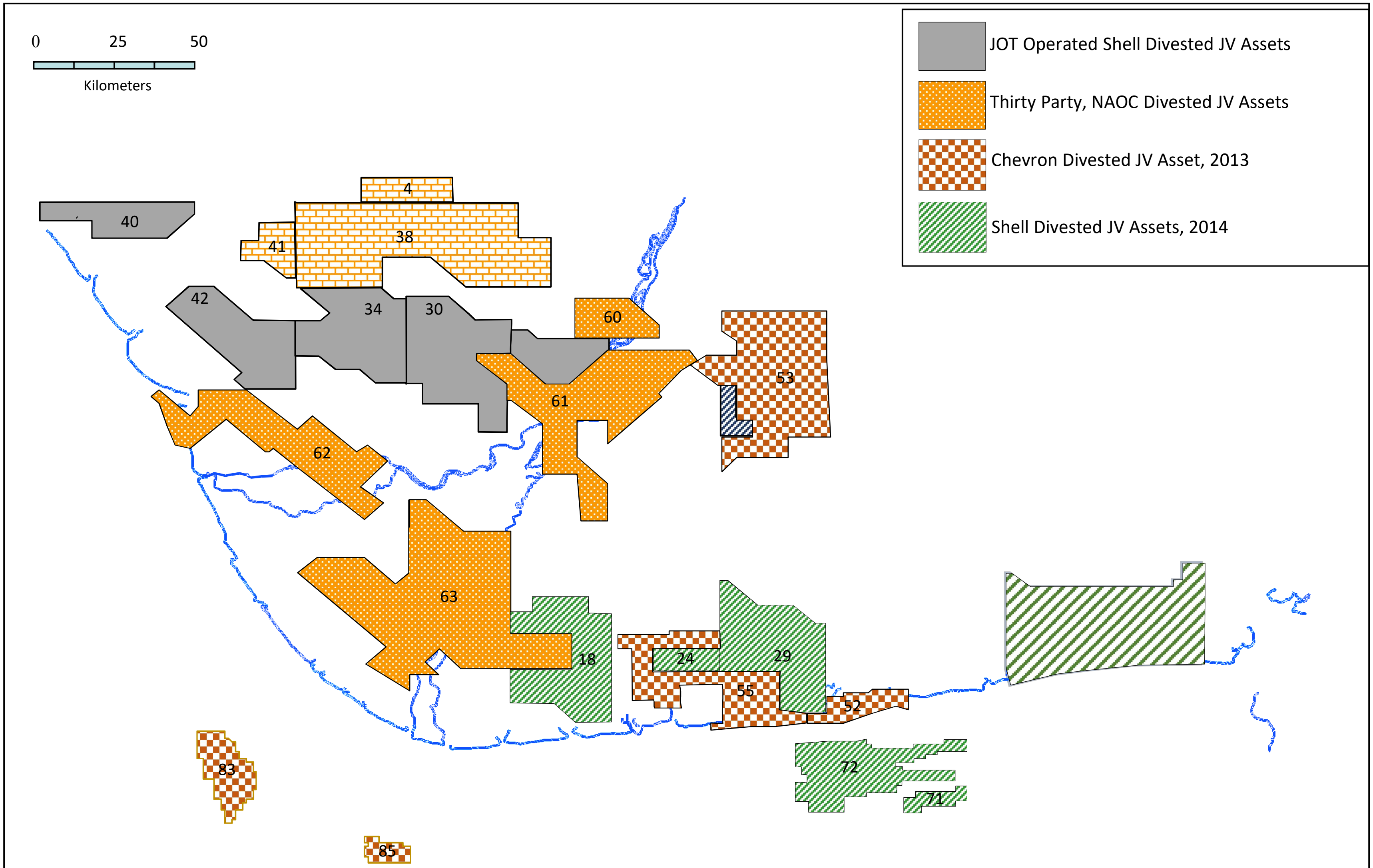
C) No After Action Review – There is no review of the processes and activities relating to the awards considering the dismal performance of awardees in which only one block has advanced to production since the 2000 – 2007 licensing rounds

D) Fiscal Regime – Clear guidelines on renewal fees is necessary while fiscal regimes should reflect the nature of the asset as the blanket application of PSC arrangement may be counterproductive

The End

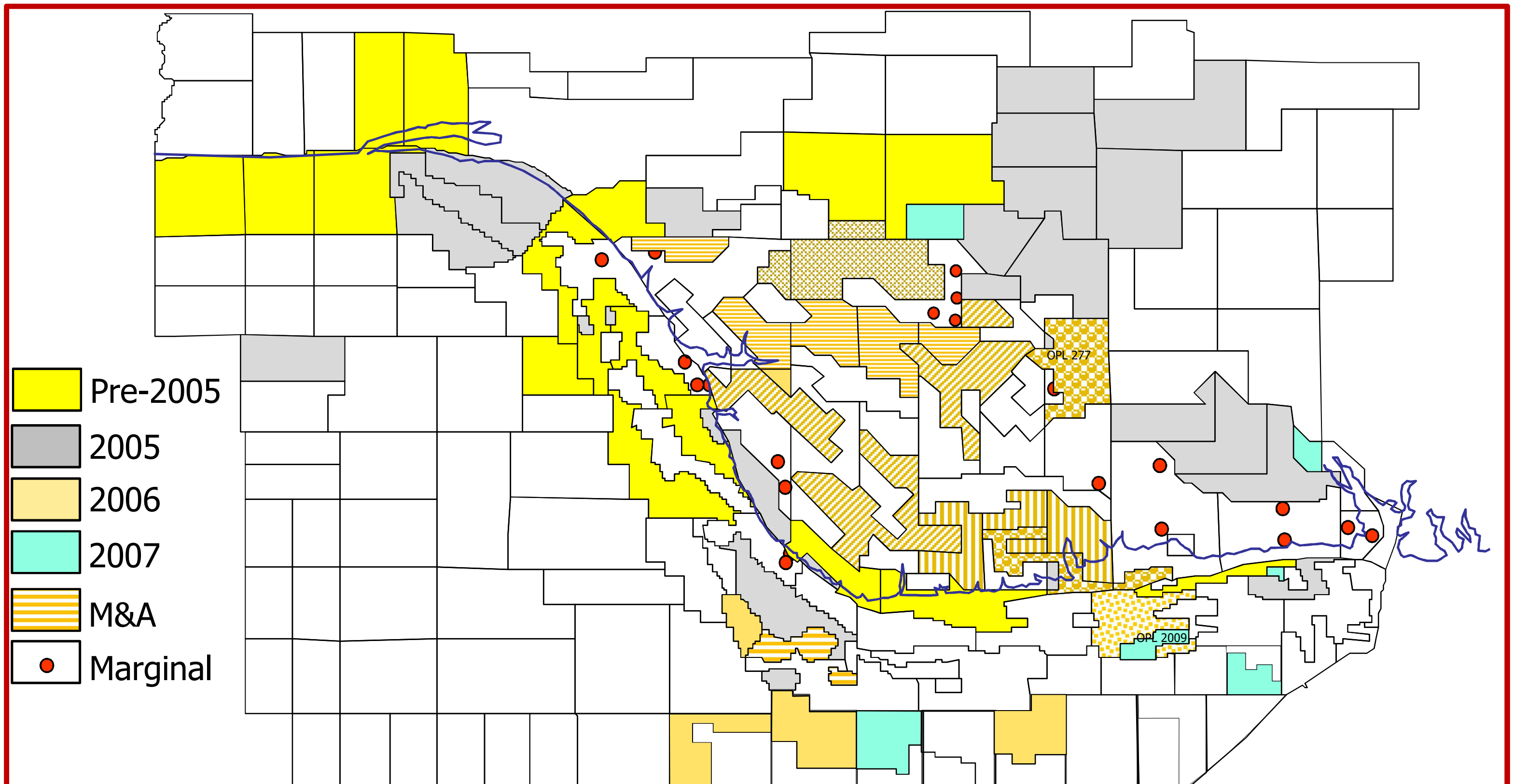
BACK UP SLIDES

PROGRESSION IN ASSET DIVESTMENT - 2014



*** JV Fields operated by NPDC not indicated**

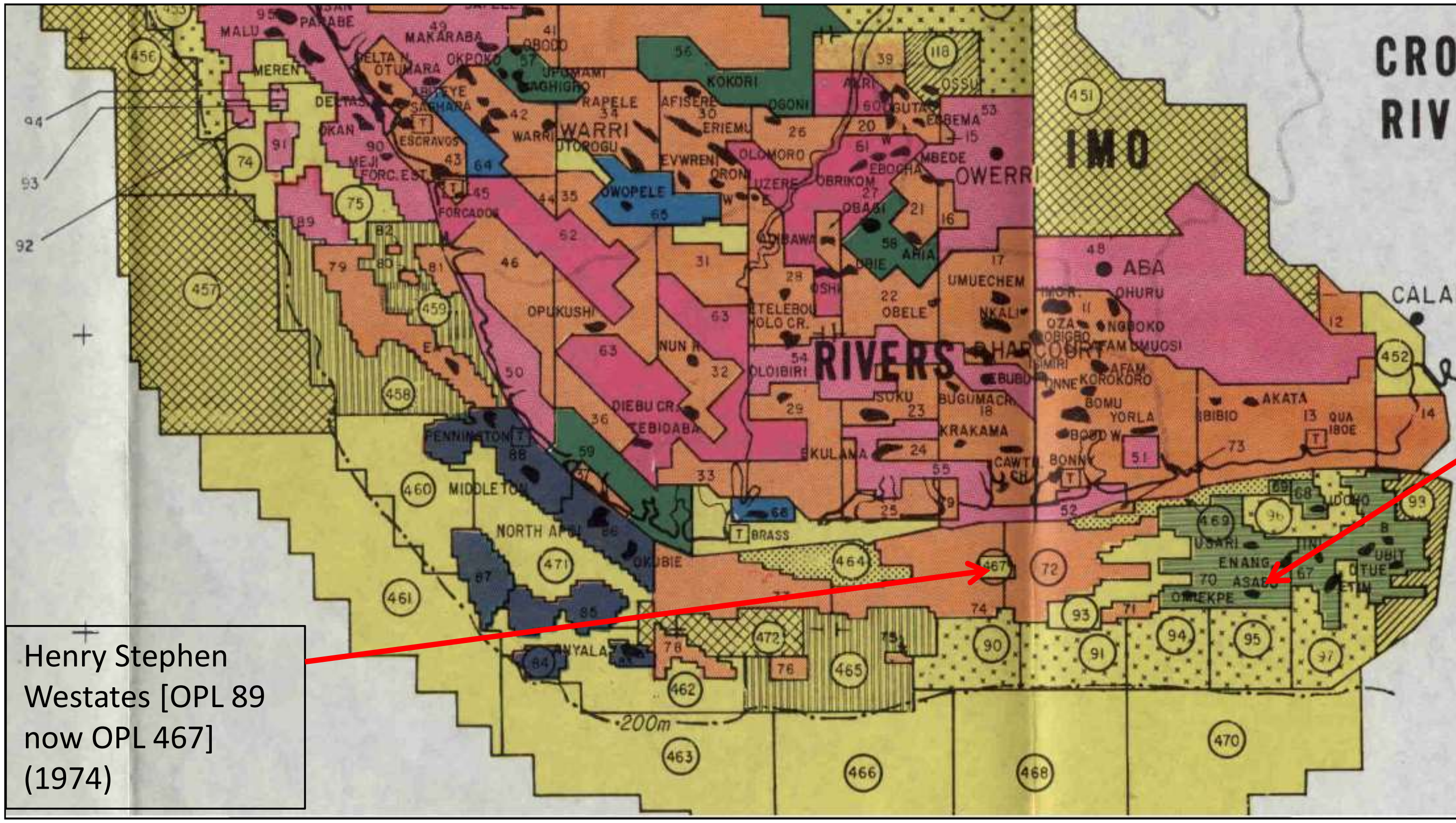
INDIGENOUS AND MARGINAL FIELD OPERATIONS – 2014 (UPSURGE IN INDIGENOUS ASSET HOLDINGS FROM M&As)



S/NO	ITEM	INDIGENOUS BLOCKS	MARGINAL FIELDS
1	NUMBER OF ASSETS	76 (659 FIELDS)	30 FIELDS
2	RESERVES (OIL)	~10 BILLION BBLS	0.5 BILLION BBLS
3	RESERVES (GAS)	~ 45 TCF	~1 TCF

HIGHLIGHT

- Is M & A able to rescue the relative lull in activities, especially, exploratory drilling in the Nigerian oil and gas industry?



Henry Stephen Westates and Nigus were the pioneer indigenous investors in the upstream sector of the oil and gas industry

INDIGENOUS OPERATORSHIP OF ASSETS IN THE NIGER DELTA

- Notable increase in indigenous participation in E&P activities
- Over 50% of blocks in the conventional terrain, mostly divested by majors, now operated by Nigerian companies
- Many of the operators have MF background