



Department of Petroleum Resources

ETHICS AND TRANSPARENCY FOR BLOCK CONCESSION & DIVESTMENTS IN NIGERIA OIL AND GAS INDUSTRY

PRESENTATION TO

PANEL SESSION 1 OF THE SOCIETY OF PETROLEUM ENGINEERS (SPE) AT THE 40TH NIGERIA ANNUAL INTERNATIONAL CONFERENCE AND EXHIBITION (NAICE 2016)

BY

DEPARTMENT OF PETROLEUM RESOURCES (DPR), LAGOS

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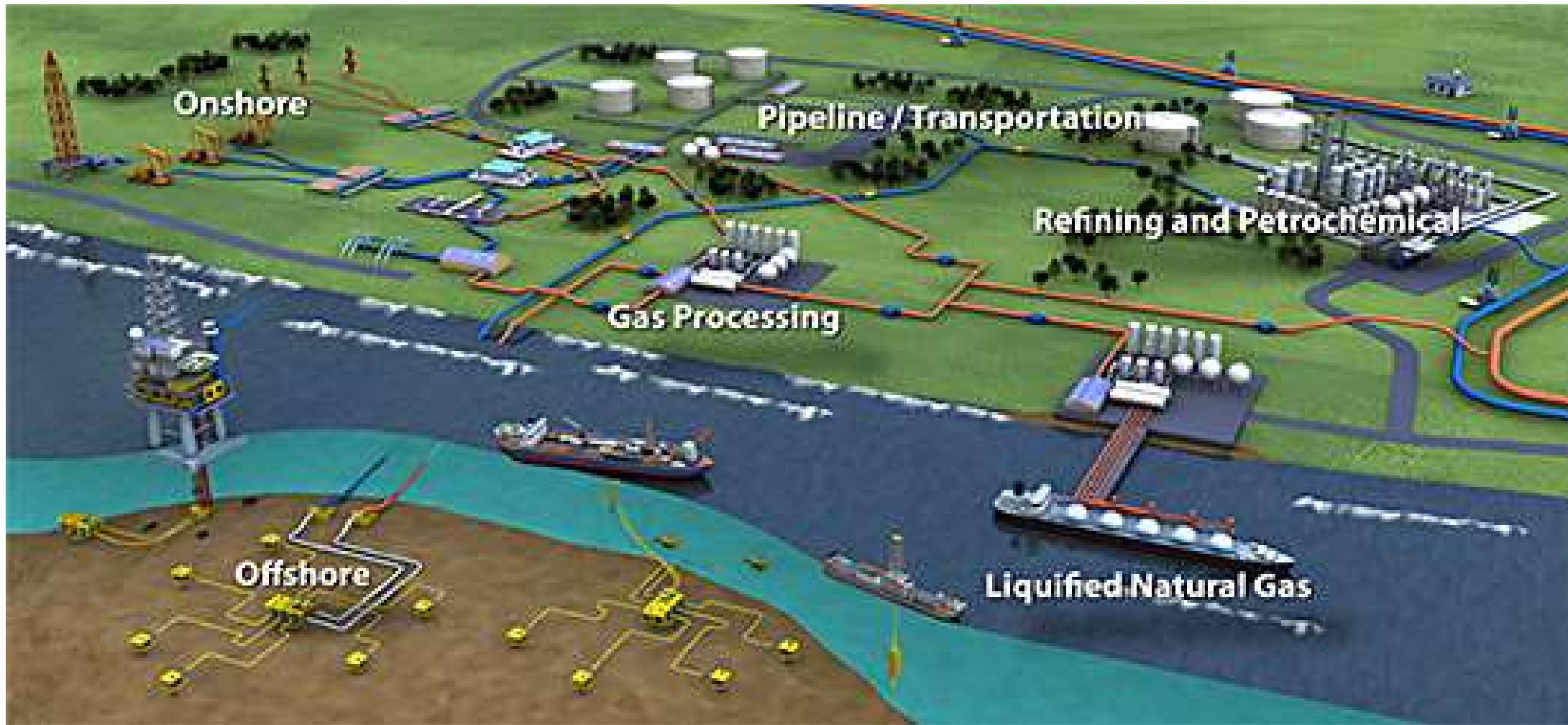


- **Introduction**
- **Ethics**
 - Administration Of Policies (Petroleum Exploration & Development Policy)
 - Licenses and Leases (OPLs and OMLs)
 - Contractual Arrangements in Lease Management
 - Legal Frame work
 - Classification of Licenses
- **Transparency**
 - Application & Review Process
 - List of License, Permits & Approval Issued
 - Divestments
- **Challenges & Conclusion**

Introduction



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- The Licensing and Permitting function of the Department is a core operation that has a direct bearing on the Department's image and public perception.
- Section 8 and 9 of the Petroleum Act confers on the Minister the power to issue regulatory licenses and permits over all upstream and downstream operations in the oil industry

Introduction – MPR & DPR



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- **The MPR is responsible for petroleum affairs – oil and gas**
- **DPR handle technical issues of Policy, Regulatory control, Royalties & Fiscal provisions, Lease administration, Licensing Operations etc.**
 - **Advising government and its agencies on policy matters**
 - **Implementing or Initiating Petroleum policies**
 - **Ensuring compliance with legislations**
 - **Regulating and Monitoring the activities of companies operating within the oil and gas industry**
 - **Enhancing revenue generation**

Guiding Instruments for Acreage Administration



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OPERATING DOCUMENT

ACTS
(SET THE PRINCIPLES)

REGULATION
(DEFINES THE BOUNDARIES)

GUIDELINES
(ESTABLISHES MODE OF IMPLEMENTATION)

ISSUING AUTHORITY

NATIONAL ASSEMBLY

HONOURABLE MINISTER

DEPARTMENT OF PETROLEUM
RESOURCES

All the operations of the DPR derive from Acts of the National Assembly which sets the principles for particular activities that are elaborated in Regulations by the Minister, where required. These are further broken down into guiding principles called Guidelines issued by the DPR



Legal Framework for the Award of Concession

By the provisions of the paragraph 2 of Petroleum Act No. 51 of 1969

The Minister of Petroleum Resources is vested with the power to allocate open blocks or acreages

Mode of Award

- Open Competitive Bidding
- Discretionary Award

Director of Petroleum Resources exercised the powers conferred on the Minister of Petroleum Resources to manage the entire process of acreage award and its administration

Types of License for Administration of Acreage



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Licenses

**Oil Exploration License
(OEL)**

**Oil Prospecting
License
(OPL)**

Oil Mining Lease (OML)

**Right to search for
presence of oil and gas**

**Right to search for
presence of hydrocarbon
and to propose
development discoveries**

**Right to search, develop and
produce oil and gas**



Oil Exploration License (OEL)

Attributes of OEL

- It does not convey exclusive right over the acreage
 - Size: Maximum size of block is 2590 Sq. Km

Duration

- Land / Swamp: One year renewable for additional one year

* No more in use

Oil Prospecting License (OPL)



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Attributes of OPL

Confers exclusive right of surface and subsurface exploration for oil and gas

- **Size: Maximum size of block is 2590 Sq. km**

Duration

- **Onshore / Land / Swamp: Five (5) years**

Initial : Three (3) years

Renewal : Additional Two (2) years

- **Inland basin and Deep Offshore**

Ist Phase: Five (5) years

2nd Phase : Five (5) years

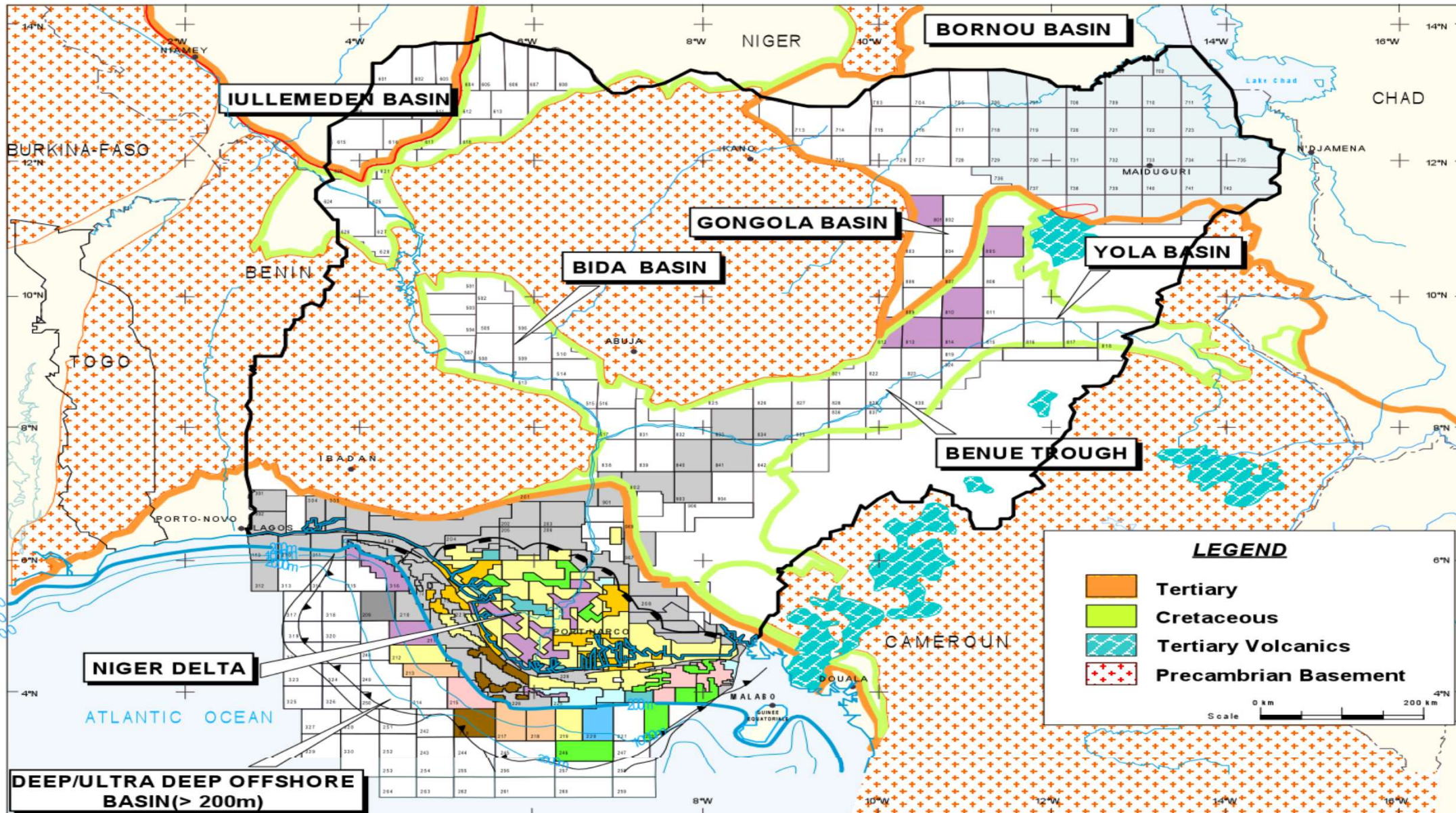
Attributes of Oil Mining Lease

- Grants exclusive rights to explore, win, produce and carry away petroleum from the relevant area
 - OML is granted through the conversion of OPL after relinquishment of 50%
 - Holder of an OPL can apply for conversion to an OML
- OML is granted if the following potential for economic production exists in an OPL :
 - Deep Offshore: 25,000BOPD
 - Land/shallow offshore/Inland Basin: 10,000BOPD
- Regulated size for OML: 1295 Sq. km
- Duration: Twenty (20) years
- OML expires after 20 years and is renewable

Nigeria' Sedimentary Basins



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Status of Blocks in Nigeria as at 15 April 2016



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Summary of Blocks Per Terrain/Geological Location

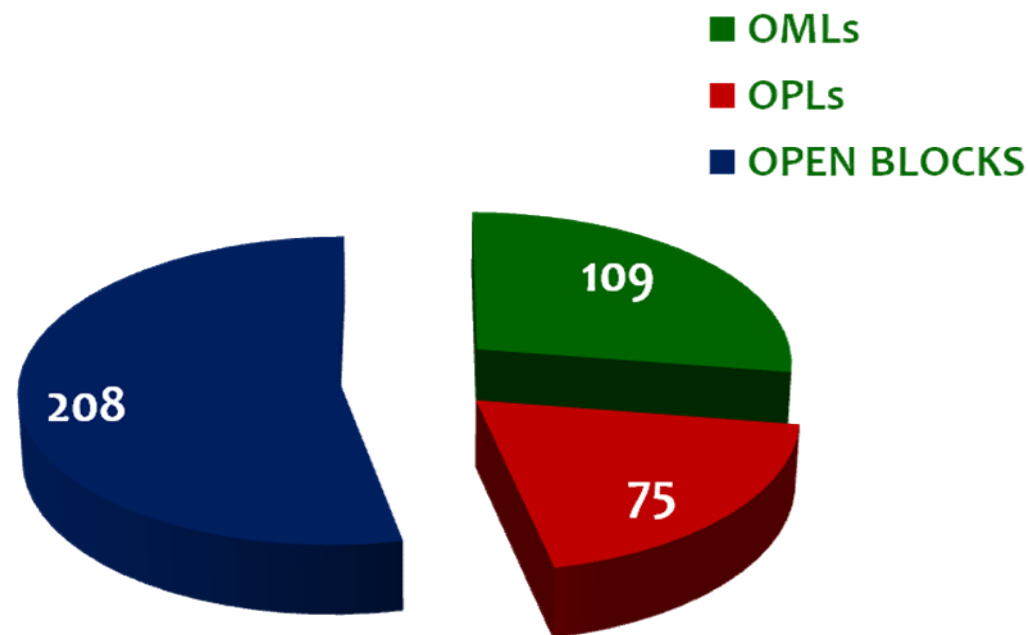
Number of OPLs = 75

Number of OMLs = 109

Open Blocks = 208

Total Number of Blocks in Nigeria = 392

| NAME OF BASIN | AWARDED | | OPEN | NUMBER OF BLOCKS |
|---------------|-----------|------------|------------|------------------|
| | OPL | OML | | |
| ANAMBRA | 6 | 1 | 12 | 19 |
| BENIN | 8 | 3 | 37 | 48 |
| BENUE | 2 | 0 | 41 | 43 |
| BIDA | 0 | 0 | 17 | 17 |
| CHAD | 6 | 0 | 40 | 46 |
| NIGER DELTA | 52 | 105 | 34 | 191 |
| SOKOTO | 0 | 0 | 28 | 28 |
| TOTAL | 75 | 109 | 208 | 392 |



Thrust of Petroleum Concession Administration Policy



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- **Policy predicated on the involvement of public and private interests in exploration and development of petroleum resources. The broad objectives are to:**
 - ✓ **Expand the scope of participation and diversify the sources of investment**
 - ✓ **Increase oil and gas reserves base for shared prosperity**
 - ✓ **Promote indigenous participation in the industry to enhanced local capacity and economic growth**
 - ✓ **Ensure adequate and efficient distribution of high quality petroleum products across the country.**
 - ✓ **Ensure adequate supply of natural gas for domestic and export markets.**
 - ✓ **Continually enhance revenue generation to the Government**
 - ✓ **Facilitate linkage with other critical sectors of the economy to enhance value creation and addition.**

Evolution of mode of Award



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- **Pre – 2000 Era**
 - Discretionary
 - Competitive (1993 PSCs)
- **2000 - 2004 Era**
 - ➔ Bid Submitted ➔ Analysis Conducted ➔ Results
- **Post 2004**
 - Technical Prequalification
 - Commercial Bidding (Instant results)

Acreage Allocation in Nigeria



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- It is pertinent to note that during the domination of the colonial masters, the extant Petroleum Laws did not address the mode of acreage allocations in Nigeria.
- Every government does what it believes is right. A period existed when discretionary allocation was combined with competitive bidding especially for the indigenous companies.
- FGN in its effort to enshrine transparency initiative adopted for open and transparent competitive bidding since 2005 to deepen DUE PROCESS, which is internationally accepted.
- Guidelines are usually the main instruments that defines the process of licensing rounds which are usually available at DPR website during Licensing bid rounds.
- The transparency of acreage allocation process can be enhanced by automating the entire process and strict adherence to applicable guidelines.

Conditions for Acreage Award



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**Applicant
Company**

Be registered for E &P business

Have proven financial capability

Be technically competent

Be committed to stipulated work programme commitment

Have sound HSE policy

Show commitment to project of strategic national interest

Have appreciable local inputs

Show commitment to host community development



Licensing Round Process

- **Advertisement of the round**
- **Public interactive session with the investors**
- **Registration of Interested investors**
 - Investors buy bid packages
 - Submit bids
- **Technical prequalification**
 - Experience in Exploration & Production worldwide
 - Consideration for terrain of interest
 - Safety and environmental compliance records/policy
- **Commercial bid conference**

Qualified applicants partake in a competitive bidding/auction for blocks of interest

Procedure for Block Award in Nigeria – Cont'd



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Bid Round Applicable Fees (Pre-award revenue)

The chargeable and non-refundable fees:

- *Application fee* – US\$10,000.00 (ten thousand Dollars) per block.
- *Bid processing fee* - US\$10,000.00 (ten thousand Dollars) per block.
- *Data prying fee* - US\$25,000.00 (twenty five thousand Dollars) per block.
- *3D Visualization fee* – US\$5,000.00 (five thousand Dollars) per block.
- *Data lease:* (i) US\$50,000.00 (fifty thousand Dollars) per block for seismic data.
(ii) US\$50,000.00 (fifty thousand Dollars) per block for evaluation reports.

Procedure for Block Award in Nigeria – Cont'd



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Typical Minimum Work Programme Obligation

| Parameter | Type of Block | Condition Description |
|-------------------------|------------------------------------|--|
| Cost Oil Ceiling | Deep Water & Inland Basin | 80% |
| | Continental Shelf, Swamp & Onshore | 70% |
| Work Program Commitment | Deep Water | Phase I: 5 years <ul style="list-style-type: none"> 1 well + 500 sq. km of 3D seismic Performance bond of US\$75M Phase II: 5 years <ul style="list-style-type: none"> 2 wells + 500 sq. km of 3D seismic Performance bond of US\$120M |
| | Continental Shelf, Swamp & Onshore | Phase I: 5 years <ul style="list-style-type: none"> 1 well + 500 sq. km of 3D seismic Performance bond of US\$25M Phase II: 5 years <ul style="list-style-type: none"> 2 wells + 500 sq. km of 3D seismic Performance bond of US\$60M |
| | Inland Basin | Phase I: 5 years <ul style="list-style-type: none"> 1 well + 1000 km of 2D seismic Performance bond of US\$15M Phase II: 5 years <ul style="list-style-type: none"> 1 well + 1000 km of 2D seismic Performance bond of US\$15M |

Procedure for Block Award in Nigeria – Cont'd



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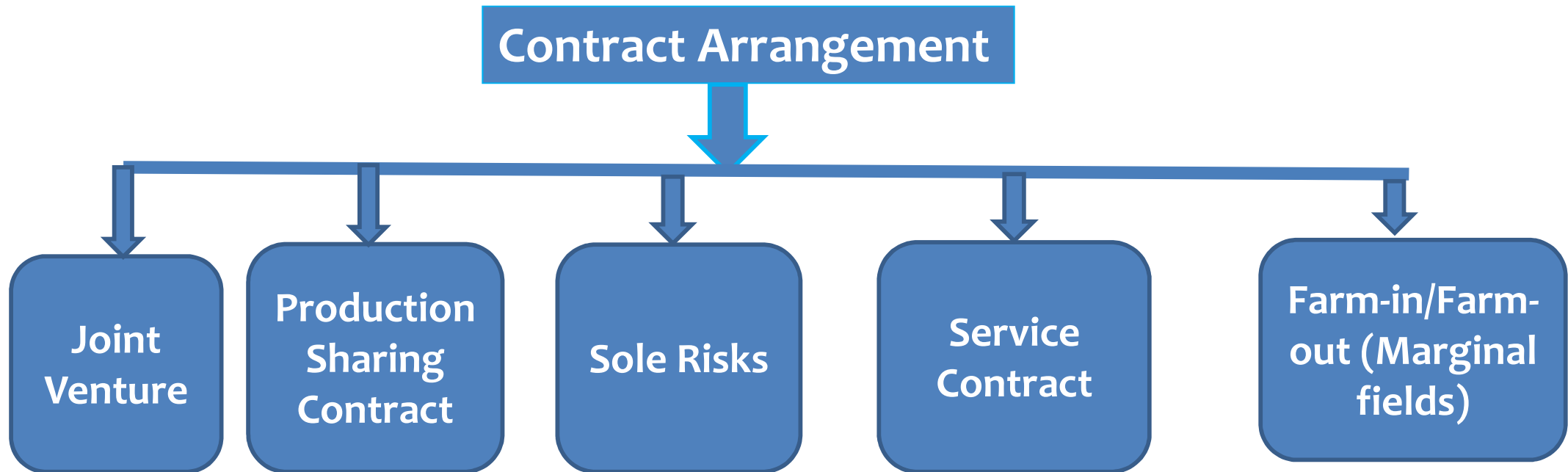
Stipulated Signature Bonus

| Terrain | Minimum Signature Bonus (US\$ Million) |
|----------------------------|---|
| Inland Basin | 0.5 |
| Onshore Niger Delta | 5 |
| Continental Shelf | 10 |
| Deep Offshore | 50 |

Ethics – Contractual Arrangements in Lease Management



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ASSET DIVESTMENT BY IOCs



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| S/No | Block (OML) Number | NNPC Equity | Farmee | Farmee Equity | Farmor |
|------|--------------------|----------------|-------------------|---------------|-----------------|
| 1 | 4 | 55% | Seplat | 45% | SPDC JV |
| 2 | 38 | | | | |
| 3 | 41 | | | | |
| 4 | 26 | | | | |
| 5 | 30 | | | | |
| 6 | 34 | | | | |
| 7 | 40 | | | | |
| 8 | 42 | | | | |
| 9 | 71 | | | | |
| 10 | 72 | | | | |
| 11 | 18 | | | | |
| 12 | 24 | | | | |
| 13 | 25 | | | | |
| 14 | 29 | | | | |
| 15 | 83 | 60% | First E&P/Dangote | 40% | Chevron JV |
| 16 | 85 | | | | |
| 17 | 52 | | | | |
| 18 | 53 | | | | |
| 19 | 55 | 60% | Belema/Seplat | 20% | Conoco Phillips |
| 20 | 60 | | | | |
| 21 | 61 | | | | |
| 22 | 62 | | | | |
| 23 | 63 | | | | |
| 24 | 214 & 131 | Concessionaire | Oando (in 131) | | |

Challenges hindering transparent and ethical administration of Oil blocks Concession and Divestments



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- **Bidder's interference with process**
- **Lack of adequate funding of the bid process**
- **Data room utilisation instead of the cloud system that will enable all bidders to access data from the comfort of their offices**
- **Unrealistic offers made by some bidders just to win**
- **Inability of some bidders to pay amount offered for signature bonus.**
- **Payment information is not instant at bid conference**

Conclusion



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- **Concession administration process has evolved over time from a fully discretionary approach to the present competitive bidding.**
- **Asset divestment was a God sent breather which provided opportunity of the growth of independents. Mergers & acquisition and stock exchange listing will greatly enhance transparent divestment transaction process.**
- **Transparency of Concession award and divestment processes needs to be greatly enhanced.**
- **Strengthening NEITI and its collaboration with the industry regulator and players is highly desirable to enhance transparency and accountability in Oil and Gas transactions/operations.**
- **Guidelines for Ministerial consent developed by the DPR is a step in the right direction in enhancing the ethical and transparent divestment of oil and gas assets in Nigeria.**
- **Automation of lease administration, licensing and divestment processes is crucial.**
- **There is urgent need for National Licensing policy for Oil and Gas Assets.**

Thank You