 <p><b>DEPARTMENT OF PETROLEUM RESOURCES</b> ...Petroleum Regulatory Agency Of Nigeria <b>DPR</b></p>	<b>Applicable to Investors and Operators</b>
<b>GUIDELINES FOR THE AWARD AND OPERATIONS OF MARGINAL FIELDS IN NIGERIA</b>	<b>Code: DPR Guide 0041 - 2020</b> <b>Effective Date: June 2020</b>

# **GUIDELINES FOR THE AWARD AND OPERATIONS OF MARGINAL FIELDS IN NIGERIA**

**ISSUED BY**


**DEPARTMENT OF PETROLEUM RESOURCES**

**2020**


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## 1 PREAMBLE


The Department of Petroleum Resources (DPR) is the technical arm of the Ministry of Petroleum Resources with broad responsibility for implementing government policies, ensuring regulatory compliance, managing collection of oil and gas statutory revenues, and licensing of petroleum operations as guided by the Petroleum Laws, Statutes and Subsidiary Legislations. The core roles of the DPR include the following:

- i. Advise Government on policy matters affecting the management of Petroleum Resources.
- ii. Conduct basinal assessments and carry out lease administration.
- iii. Ensure compliance with applicable laws and statutes.
- iv. Regulate and monitor the activities of all licensees, lessees and permit/duty holders in the oil and gas industry.

The Honourable Minister of Petroleum Resources (HMPR) supervises the activities of the Ministry of Petroleum Resources that has mandate for the overall articulation of policies in the oil and gas sector of the Nigerian economy. In addition to general coordination roles, the Honourable Minister carries out administrative oversight across all the Departments and Agencies under the Ministry.

## 2 LEGAL PROVISIONS AND REGULATORY FRAMEWORK

Section 17 of the First Schedule to the Petroleum Act, 1969, as amended, provide the basis for government policy to enhance growth in exploration and production activities through indigenous participation. This provision creates opportunities for the development of several oil and gas discoveries that exist in Nigeria, some of which have been left unattended for many years. In some cases, the fields have remained unproduced or partially appraised. It is therefore the intention of Government to carry out, in collaboration with operating companies, farm-out

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of un-produced, un-appraised, abandoned or producing fields on existing Oil Mining Lease (OML) to independent and indigenous companies on a periodic basis. Such operations would normally be regulated by the legislation guiding the oil and gas industry in Nigeria which includes the following:

- i. Petroleum Act, 1969, as amended
- ii. Oil Pipeline Act 1956, as amended
- iii. Petroleum Profit Tax Act, 1958 as amended
- iv. Mineral Oils (Safety) Regulations, 1963
- v. Petroleum (Drilling and Production) Regulations, 1969, as amended
- vi. Nigerian National Petroleum Corporation Decree 1977
- vii. Associated Gas Re-injection Act 1979
- viii. Associated Gas (Continued Flaring) Regulations, 1985
- ix. Flare Gas (Prevention of Waste and Pollution) Regulations, 2018
- x. National Domestic Gas Supply and Pricing Regulations, 2008

### 3 MARGINAL FIELDS AWARD BID ROUND OBJECTIVES

The broad objectives of the Marginal Fields Award Bid Round are as follows:

- i. Grow production capacity by expanding the scope of participation in Nigeria's Petroleum sector, through diversification of resources and inflow of investments.
- ii. Increase oil and gas reserves base through aggressive exploration and development effort.
- iii. Reduce cost of production.
- iv. Provide opportunity for portfolio rationalization.
- v. Promote indigenous participation in the sector thereby fostering technological transfer.

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- vi. Provide opportunity to gainfully engage the pool of high level technically competent Nigerians in the oil & gas sector.
- vii. Promote common usage of assets/facilities to ensure optimum utilization of available capacities.

#### 4 DEFINITION OF MARGINAL FIELDS

A marginal field is any field that has been discovered and has been left unattended for a period of not less than ten (10) years, from the date of first discovery or such field as the President may, from time to time, identify as a Marginal field. Specifically, marginal fields shall have some or all of the following characteristics:

- i. Fields not considered by license holders for development because of assumed marginal economics under prevailing fiscal and market terms.
- ii. Fields with at least one exploration well drilled and have been reported as oil and/or gas discovery for more than 10 years with no follow up appraisal or development effort.
- iii. Fields with crude oil characteristics different from current streams (such as crude with very high viscosity and low API gravity), which cannot be produced through conventional methods or current technology.
- iv. Fields with high gas and low oil reserves.
- v. Fields that have been abandoned by the leaseholders for upwards of three years for economic or operational reasons.
- vi. Fields that leaseholders may consider for farm-out as part of portfolio rationalization programmes.



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It should be noted that un-produced discoveries in open leases (blocks) do not qualify for farm-out as they would constitute part of the whole acreage that would be awarded in new license rounds to further encourage exploration activities on the blocks.

## 5 CATEGORISATION AND PREQUALIFICATION

### 5.1 Categorization of Marginal Fields


Operating Companies shall carry out field studies, update their portfolio of undeveloped fields and report status to the DPR on a periodic basis. All fields that could be classified as “Marginal” pursuant to Section 4 shall be presented and agreed to by DPR.

### 5.2 The Award Process

On periodic basis, as may be determined and directed by the HMPR, the DPR shall carry out award of Marginal fields guided by an approved process. Usually, the process involves the following steps:

- i. Formal announcement for commencement of the exercise.
- ii. Launch of Marginal Fields Bid Portal / Issuance of Specific Requirements.
- iii. Expression of Interest (EoI) / Registration.
- iv. Prequalification of interested companies.
- v. Announcement of Pre-qualified companies.
- vi. Data Prying, Leasing and Purchase of Reports.
- vii. Submission of Technical and Commercial Bids by Prequalified companies.
- viii. Evaluation of Technical and Commercial Bids.
- ix. Announcement of Winning Bids.

The DPR will manage the process, ensuring compliance with the provisions of the Guidelines.

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### 5.3 Applicable Fees

The following items shall attract specific fees which will be announced by the DPR at the commencement of the process:

- i. Registration
- ii. Application and Bid Processing
- iii. Data prying
- iv. Data Leasing
- v. Competent Persons Report (CPR)
- vi. Fields Specific Report (FSR)


In addition to the above listed fees, Signature bonus shall be paid by successful bidders prior to Award.

### 5.4 Criteria for Evaluation

Interested companies are required to submit the following information through the designated online portal. The information submitted must be correct as it will form the basis for evaluation of all applications.

#### 5.4.1 Evidence of Company's Existence

- i. Company Dossier (Registration details, Staffing, Organisational chart, etc.)
- ii. Affiliates & Other Business Interests of the Company
- iii. Company Management Systems (Business and Health, Safety & Environment (HSE) principles, Recruitment and training policy, Business controls)
- iv. Post award Business Strategic Plans
- v. Evidence of Financial Capability including plans to raise the required funds

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#### **5.4.2 Evidence of Technical and Managerial Capability**

The applicant shall demonstrate ability to fully meet the objective of undertaking expeditious and efficient development of a Marginal Field. This will include the following:

- i. Oil and gas project(s) supervised, managed, or executed by the company or company's Director(s)
- ii. Years of experience in Business Management, Finance and Administration

Where there is little or no track record of (i) and (ii) above, the company must submit evidence of ability to manage or develop in that direction in the short term.

#### **5.4.3 Premium**


Company shall provide evidence of ability and willingness to pay the offered Signature Bonus, if successful.

#### **5.4.4 Nigerian Content**

The applicant shall present a comprehensive strategy for training and growth of indigenous capability and manpower. Additionally, the company shall make available its plan for local input in the provision of materials and services to the industry.

#### **5.4.5 Host Community/State**

Consideration shall be given for Host Community/State participation, as well as commitment to social project and/or proposal aimed at the socio-economic development of the populace in the Host Community/State.

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#### 5.4.6 Nature of Company

At the pre-qualification stage, attention shall be paid to the following regarding the sponsors:

- a. Background and experience with exploration and production at sufficiently high level.
- b. Federal Character representation

The indigenous company shall be wholly or substantially Nigerian and shall be registered principally for exploration and production business.

#### 5.4.7 Fields

The companies shall indicate in their submission which field(s) they are interested in.

#### 5.4.8 Eligibility to Participate

Pre-qualification will be open to all indigenous companies that are duly registered to carry out petroleum exploration and production operations in Nigeria. Companies, including their promoters that are indebted to the Government, will not be pre-qualified. Also, companies and their promoters that currently have assets that are not being operated in a business-like manner will not be pre-qualified.

### 5.5 Method of Pre-qualification

- i. The pre-qualification exercise shall be done based on objective criteria, guided by rules of general application.
- ii. The Department of Petroleum Resources will conduct the pre-qualification exercise and is not obliged to pre-qualify any of the applications received.

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## 5.6 Timeline

The overall process is not expected to take longer than six (6) months, from date of announcement and commencement to signing of Farm-out agreement with the leaseholders.

## 6 EVALUATION AND SELECTION

Following the pre-qualification exercise, pre-qualified companies shall be invited to submit a field specific technical and commercial bid based on relevant and available field data.

### 6.1 Technical Proposal


Applicants are required to submit details of the proposed technical work programme for field(s) in which they are interested. The work programme is expected to provide plans for development and operations of the field.

### 6.2 Commercial Proposal

A commercial proposal shall be submitted alongside the technical bid which will be evaluated to assess the optimal field development concepts/plans and its economic viability.

### 6.3 Method of Selection

The Marginal Fields Bid Round will be based on competitive participation by interested companies/entities. The application, together with requisite information and documentation will be screened prior to making recommendations for the award of the fields. The overall evaluation and selection process will be guided by the criteria specified

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in the Guidelines, in addition to whatever additional information that may be considered necessary.

## **7 ANNOUNCEMENT OF AWARDEES**

Following completion of the pre-qualification and selection processes, the recommendations shall be forwarded to the HMPR and subsequently to the President and Commander in Chief of the Armed Forces of Nigeria pursuant to the Petroleum Act, 1969, as amended, for approval. Successful applicants shall thereafter be duly notified by the DPR for payment of Signature Bonus prior to Award.

## **8 NEGOTIATION OF FARMOUT AGREEMENT**

Where two or more companies decide to participate jointly, the Leaseholder and the Parties shall promptly enter into negotiations regarding the terms and conditions of the Farmout Agreement. The Parties shall endeavour to reach an agreement within 90 days. However, if the Parties fail to reach an agreement with respect to any of the terms and conditions, either Party may notify DPR. In such cases, the HMPR shall adjudicate in respect of the relevant terms and conditions. Where two or more companies are awarded one field, the Joint Operating Agreement (JOA) shall be negotiated and agreed/executed prior to signing the Farm out Agreement with the Leaseholder.

## **9 PAYMENT OF FEES AND SIGNATURE BONUSES**

- i. Applicable fees for various stages of the Marginal Fields Bid Round are contained in Appendix 1.
- ii. Prior to the Award of Marginal Field to a successful applicant, the Signature Bonus shall be paid as specified in the **Notice of Preferred Bidder Status**.

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- iii. If the company fails to pay the required Signature Bonus as specified in the **Notice of Preferred Bidder Status**, the next Reserve Bidder shall be considered.

## 10 **EQUITABLE CONSIDERATION**

In reaching an agreement on terms and conditions of the farm-out arrangement, the parties must, as a matter of necessity, agree on equitable consideration and structure of same. To facilitate such a negotiation, it is important for each party to determine on its own, the worth of the farmout interest on offer (considering the status of the field i.e. whether it is in the appraisal or development phase of its life cycle as such considerations affect the value and associated risks). However, if the parties fail to reach an agreement, the HMPR shall then adjudicate on the matter.

## 11 **OTHER COMMERCIAL CONSIDERATIONS**


In negotiating the Farmout Agreement, any of the following shall apply:

- i. **Over-riding Royalty:** The Farmor will earn an Over-riding Royalty interest.
- ii. **Tariff for Transportation and/Processing:** Under this scheme, the Farmor receives a negotiated \$/bbl as tariff from the Farmee. Payment could also be in kind; i.e. in the form of a percentage of the net production.

## 12 **ELEMENTS OF FARMOUT AGREEMENTS**

### 12.1 **Indemnity**

The activities of a Marginal Field entity could create serious problems with respect to all aspects of operation including but not limited to environmental issues, management of community issues and abandonment, within the lease.

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These potentially critical issues call for some form of indemnity between the various parties. Therefore, guarantees to back such indemnity shall include minimum level of insurance depending on the size of operation and the issue being managed.

### **12.2 Farm-Out Area**

Fields farmed out shall be ring fenced based on seismic data depicting the extent of the field (“the Farm-Out Area”) and the Farmee shall be fully responsible for the Farm-out Area.

### **12.3 Field Data**

All previous data acquired in the field shall be mandatorily handed over to the Farmee and would form part of the negotiation during farm-out negotiation.


### **12.4 Appraisal and Deep Drilling Rights**

The Marginal Field awardee is encouraged to develop new programmes and deploy new technologies to grow reserves and enhance production in the field. If during appraisal or deployment of new technology, new pools are discovered, they shall be credited to the Farmee. Furthermore, if during deep drilling, deeper pools are discovered, the Farmor and Farmee shall negotiate the terms and conditions for the development.

### **12.5 Decommissioning and Abandonment**

The equitable share of cost for decommissioning and abandonment shall form part of the negotiation of the Farm-out Agreement. Farmee shall set aside an agreed percentage of its budget (in an escrow account, trust fund or similar security) or put in place a performance bond to provide security for eventual decommissioning and abandonment.



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### 12.6 Straddled Fields/Reservoirs

Where a field or reservoir straddles as a non-operated discovery into another block owned by another leaseholder, it shall be operated as a unit under the same agreement entered with the first leaseholder. A unitisation agreement shall be a condition precedent for the approval of a Farm-out.

### 12.7 Award

A marginal field farm-out may only come into effect after payment of all bonuses & fees and approval by the President and Commander in Chief of Armed Forces of the Federal Republic of Nigeria.

### 12.8 Basis of Operation


The Farmee shall operate on a sole risk basis. However, Government reserves the right to a participating interest at any time.

### 12.9 Community Development/Relationship

The Farmee shall be responsible for community development activities as well as managing interfaces and relationships in the ring-fenced area. Hence, a Community Development/Relationship Plan shall form an integral part of the marginal field development and operations strategy.

## 13 OPERATOR

A Marginal Field Operator shall adhere strictly to the standards set out in the Marginal Field Guidelines. Any change in operatorship shall be approved by the HMPR. An Operator must have an interest in the farm-out and shall cease to be the Operator if such interest terminates or expires.

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#### 14 BANKRUPTCY/INSOLVENCY

The field shall be returned to the marginal field pool of the DPR in the event of insolvency on the part of the Farmee. Obligations or liabilities accrued to the Farmee prior to the return of the field shall not be affected or transferred.

#### 15 ENCUMBRANCE


Farmee may carry out whatever is required to perform its obligation under the farmout arrangement and the responsibilities on the field thereof pursuant to Section 18 of the Guidelines, provided that such Farmee shall remain liable for all obligations relating to such an arrangement. Under no circumstance shall a Farmee reach an agreement with other parties that encumber the lease or the Farm-out Area.

#### 16 TERMINATION

- i. If within sixty (60) months of consent to the farm-out agreement, a Farmee fails to show verifiable evidence of efforts made to progress development on the field(s) according to the approved plan, the HMPR shall, on the recommendation of the DPR, withdraw such consent and void the farm-out agreement.
- ii. If the farm-out agreement between the Farmee and the Farmor is to be terminated at any time, the Farmee shall be required to give not less than 90 days written notice to the DPR and make a payment of the prescribed fee.

#### 17 RENEWAL

If at the end of sixty (60) months of consent to the farm-out agreement, a Farmee shows verifiable evidence of efforts made to progress the work on the fields according to approved plan, and the DPR is so satisfied, the farm-out agreement shall be renewed in accordance with the law.

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## **18 RIGHTS AND OBLIGATIONS**

- i. The Farmee shall have all the rights of an OML holder in respect of the Farm-out Area containing the field(s) once the farm-out is concluded and all the rights, interests and duties of the leaseholder shall be transferred to the Farmee.
- ii. Farmee shall have the right/obligation to deal directly with the DPR and other administrative authorities as applicable to the leaseholder.
- iii. All rights, interests, obligations and liabilities of the Farmor in respect of Farm-out Area containing the field(s) shall automatically transfer to the Farmee and the Farmor shall be relieved of same as from the date of the execution of the Farm-out Agreement.

## **19 END OF PRODUCTION**


The field(s) shall revert to the marginal field pool of the DPR twenty-four (24) calendar months following the end of production operation on the field provided that this does not relieve the Farmee of any obligations and liabilities in respect of such field(s) such as abandonment, environmental restoration and all other obligations in accordance with the law.

## **20 GAS PRODUCTION AND UTILIZATION**

The Farmee shall have full obligation for utilisation of all gas produced from the Farm-out Area.

## **21 SUPERVISING AUTHORITY**

The DPR shall supervise and monitor the operations of the Farm-out Area.

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## **22 COMMON USAGE OF FACILITIES**


- i. Pursuant to the provisions of Section 17A of the Oil Pipeline Act, 1956, the HMPR may compel a facility owner to accept a third party in sharing the usage of its system if there is sufficient evidence and satisfaction as to the availability of excess capacity.
- ii. The Farmee shall within ninety (90) days enter into negotiations and reach a common usage agreement with the identified facility owner on the terms and conditions for the use of the facility. Either party may give notice if the parties fail to reach an agreement with respect to the equitable ullage fees and the HMPR shall then adjudicate on the matter.
- iii. In adjudicating, the HMPR shall provide to the parties, its computation of equitable tariff. Such computation shall be based on a procedure guide for setting ullage fees, which shall be of general application in the industry.
- iv. In principle, the applicable tariff should not be higher than the upper limit that a third party will be willing to pay in a purely commercial negotiation. The maximum tariff a third party will normally be prepared to pay is dictated by the equivalent cost of building its own and shall be premised on the industry acceptable hurdle rate of return in respect of such project and similar transaction.

## **23 TRANSPORTATION AND TERMINAL OPERATIONS**

The transportation, lifting and accounting of produced crude oil and gas shall be in a manner acceptable to the DPR and in accordance with applicable Petroleum Laws and Regulations.

## **24 SAFETY AND ENVIRONMENT**

Farmee shall provide a safety and environment programme which shall be in accordance with applicable Regulations, Guidelines and Standards.

 <p data-bbox="402 174 771 254">DEPARTMENT OF PETROLEUM RESOURCES .....Petroleum Regulatory Agency Of Nigeria</p>	<p data-bbox="1073 201 1471 226">Applicable to Investors and Operators</p>
<p data-bbox="245 304 1016 359">GUIDELINES FOR THE AWARD AND OPERATIONS OF MARGINAL FIELDS IN NIGERIA</p>	<p data-bbox="1125 304 1417 329">Code: DPR Guide 0041 - 2020</p> <p data-bbox="1138 363 1404 388">Effective Date: June 2020</p>

#### 24.1 Safety

Field development plan for the development and production of a marginal field shall include provisions for safety of personnel and safe conduct of all operations.

#### 24.2 Environment

The Farmee shall conduct Environmental Impact Assessment (EIA) and other relevant studies from the commencement of the marginal field development.


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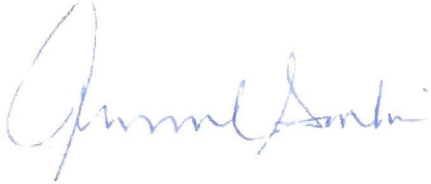
## APPENDIX

### Fees Payable for 2020 Marginal Fields Bid Round

S/No	Description	Amount
1	Registration fee	₦500,000.00
2	Application fee	₦2,000,000.00 per field
3	Bid Processing fee	₦3,000,000.00 per field
4	Data Prying fee	US\$15,000.00 per field
5	Data Leasing fee	US\$25,000.00 per field
6	Competent Persons Report	US\$50,000.00 per field
7	Field Specific Report	US\$25,000.00 per field

- i. Registration, Application and Processing fees are to be paid into the Treasury Single Account (TSA).
- ii. The fees for data leasing, data prying, Competent Persons Report (CPR) and Field Specific Report are to be paid into the NDR account.
- iii. Signature Bonuses are to be paid into the Federation Account.

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<p style="text-align: center;"><b>Approved by</b></p>		
<p style="text-align: center;"><b>Engr. Sarki Auwalu</b> <small>MNSE</small> ( Director/CEO, Department of Petroleum Resources)</p>		
	<table border="1" style="width: 100%;"> <tr> <td data-bbox="1029 1203 1214 1260"> <p><b>Date</b></p> </td> <td data-bbox="1214 1203 1524 1260"> <p><b>31<sup>st</sup> May 2020</b></p> </td> </tr> </table>	<p><b>Date</b></p>
<p><b>Date</b></p>	<p><b>31<sup>st</sup> May 2020</b></p>	