



An overview of the Petroleum Industry Bill



July 2009



Outline

- Fundamental Objectives
- The Sectors
- Institutions
- Upstream Operations and Fiscal Systems
- Incorporated Joint Venture
- Midstream & Downstream Project Approval and Licensing
- Midstream Operations, Downstream Products & Special Provisions with Respect to Natural Gas
- Indigenous Oil Companies, Nigerian Content and Host Communities
- Health, Safety and Environment
- Transparency and Accountability



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Fundamental Objectives:

- Vests Oil & Gas resources in the sovereign State of Nigeria.
- Separates policy, regulation and commercial activities
- Licenses, leases and permits granted only through guided procedures established by the Act.
- Any company shall apply and be granted leases, permits in accordance with the PIB.
- Management and allocation of petroleum resources in accordance with the principles of good governance, transparency, and to promote sustainable development and economic value to Nigeria.
- Guarantees government participation in licenses or leases and in the exploitation of natural gas.
- The institutions and NOC to be guided by the provisions of the NEITI Act of 2007.
- Honors international environmental provisions and obligations.
- Encourages community relations and the development of Nigerian Content.



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The Sectors

- **Upstream Sector**
 - Oil Exploration & Development
 - Gas Exploration & Development
- **Midstream Sector**
 - Oil Transportation & Gas Transmission
 - Gas Processing
 - LNG/CNG/GTL
 - Derivative Processing/Production
 - Oil Refining
- **Downstream Sector**
 - Gas Distribution /Sale
 - Petroleum product distribution & Storage
 - Petroleum Product Retail

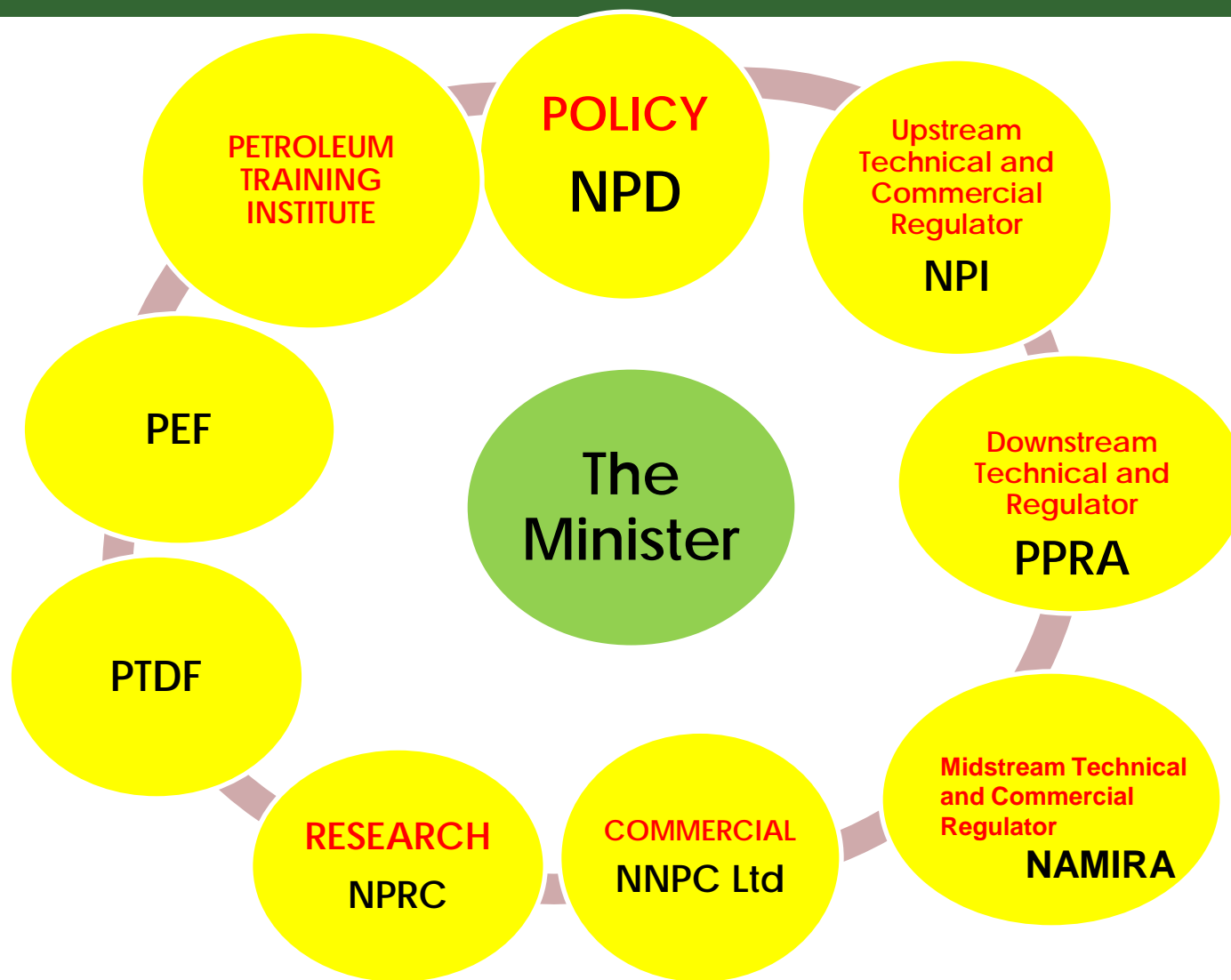


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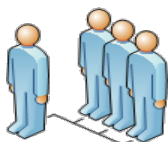
The Institutions





Institutional and Regulatory Framework

PIB Institutional Re-Alignment



Inspectorate

Agency

Authority

- Oil Exploration & Dev.
- Gas Exploration & Dev.

NOC
IOC
IJV
MFO
IDOC

- Oil Transp. & Gas Transmission
- Gas Processing
- LNG/CNG/GTL
- Derivative Processing/Production
- Oil Refining

NOC
IOC
IJV
IDOC

- Gas Dist. /Sale
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NOC
IOC
IDOC

**Policy &
Coordination**

Regulation

**Commercial
Operations**



Part II-Institutions of the Oil & Gas Industry: The Minister and The National Petroleum Directorate

The Minister

- Supervises Institutions and the Industry
- Represents Government
- Right to preemption
- Coordination
- Makes regulation

The NPD

- Policy Formulation for the Oil and Gas Sector
- Monitoring and Supervising government policy in the Industry
- Providing the Minister with the Institutional platform for coordinating the Industry
- Represent government in international oil and gas bodies
- Custodian of all unassigned acreages
- Provides the Secretariat for the National Energy/Petroleum Council
- Collects proceeds of each barrel of fiscalised crude for financing the activities of the distinct regulatory bodies.

Institutions :Regulatory Institutions and National Oil Company



National Petroleum Inspectorate (NPI):

- Technical and Commercial regulator
- Reserve Evaluation
- Reservoir Management Monitoring
- Periodic Technical Audit of E&P Operations
- Local Content & HSE

National Midstream Regulatory Agency (NAMIRA):

- Oil Transportation & Gas Transmission
- Gas Processing, LNG/CNG/GTL
- Derivative Processing/Production & Oil Refining
- Local Content & HSE

Petroleum Products Regulatory Authority (PPRA):

- Gas Distribution /Sale
- Petroleum Product Distribution & Storage
- Petroleum Product Retail

National Oil Company- NNPC Limited

- Receives assets of NNPC prescribed by Act
- Self funding and financing involved in entire value chain
- Wholly owned by Govt.
- Partner in IJV
- Holder of concession for PSC



Institutions: Other Agencies

- **Frontier Exploration Agency (FEA):**
 - Efficient and sustainable exploration in the frontier basins.
 - Evaluation of unassigned concessions.
 - Promotion of third party interest in frontier basins.
 - Carry out studies in unassigned frontier acreages.
- **Petroleum Equalization Fund (PEF):**
 - Receiver of surplus revenue of marketing companies.
 - Manages reimbursement of losses by companies.
 - Receiver of any funds set aside by the Federal Government.
- **Petroleum Technology Development Fund (PTDF):**
 - Training of Nigerians in fields related to oil & gas activities.
 - Endowment to Universities.
 - Carry out other capacity building activities.
- **National Petroleum Research Centre (NPRC):**
 - Carry out research in all matters pertaining to the petroleum industry.
 - Conduct technical evaluation.
 - Develop patents and technologies.
 - Maintain database



Funding and Management provisions for all Institutions clearly defined



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Upstream Petroleum Operations

- **Vests Acreages in NPD and transfers leases held by NNPC to NNPC Ltd.**
- **Creates new National Grid System with 2x2 km parcels**
- **Institutes Transparent License Award Process**
- **Licenses and Leases**
 - Creates exploration & prospecting licenses and mining leases.
 - Awarded to winning bidder or the NOC.
 - Petroleum Prospecting Licenses shall be for crude oil and natural gas or for oil or gas alone.
 - Provides for size and tenure of PPL, PML & Exploration License
 - Sets time frame for declaration of commercial discovery and FDP
 - Sets obligation to meet Dom Gas requirements



PART III: Upstream Petroleum Operations

- Relinquishment provision for inactive leases with retention clauses
- Provides for Relinquishment from Current Licenses & Leases and Marginal Fields
- Provides for award of leases to Marginal Field Operators
- List grounds for License revocation
- Establishes Environment quality management obligations
- Provides for Abandonment, Decommissioning and Disposal of facilities



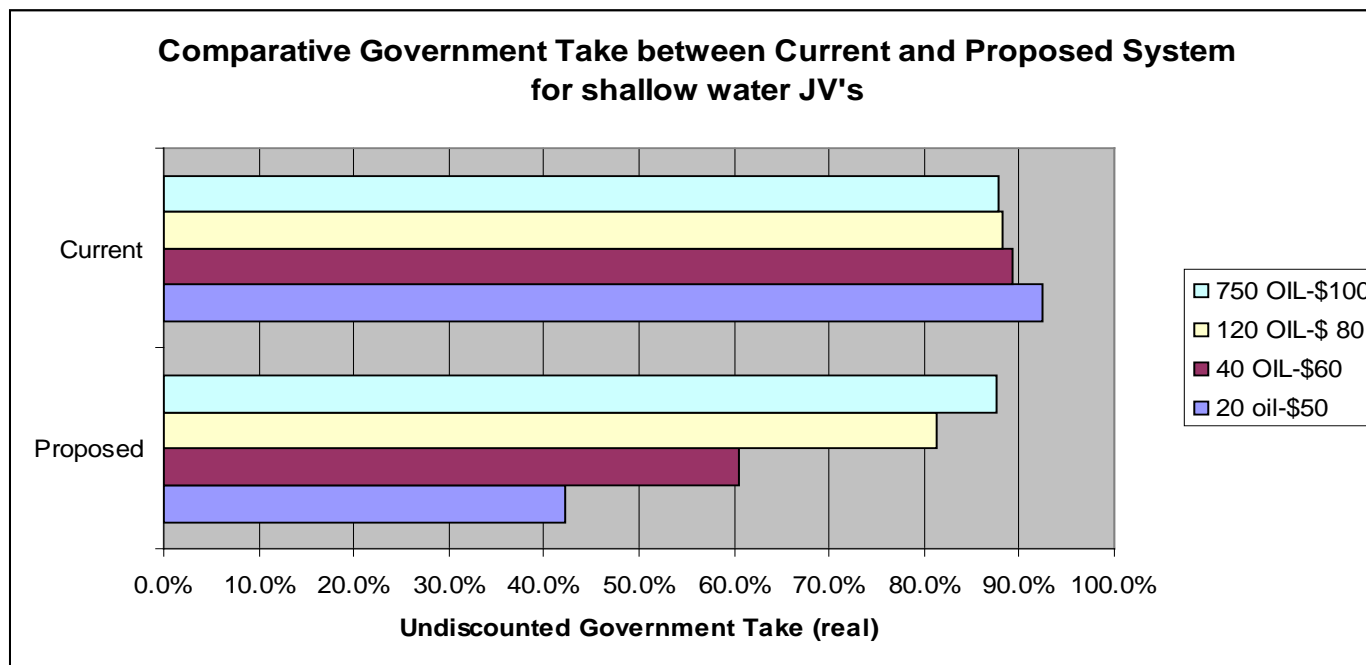
Fiscal Provisions

Thrust of Fiscal Provisions

- All Companies engaged in Upstream Petroleum Operation to pay Company Income Tax, Including NNPC Ltd
- Introduces a resource Tax - Nigerian Hydrocarbon Tax (NHT), A Simplified version of PPT
- Eliminates Tax Offsets and Upstream Investment Tax Allowances
- Reduction of deductible items for NHT
- Introduces volume and price based royalties

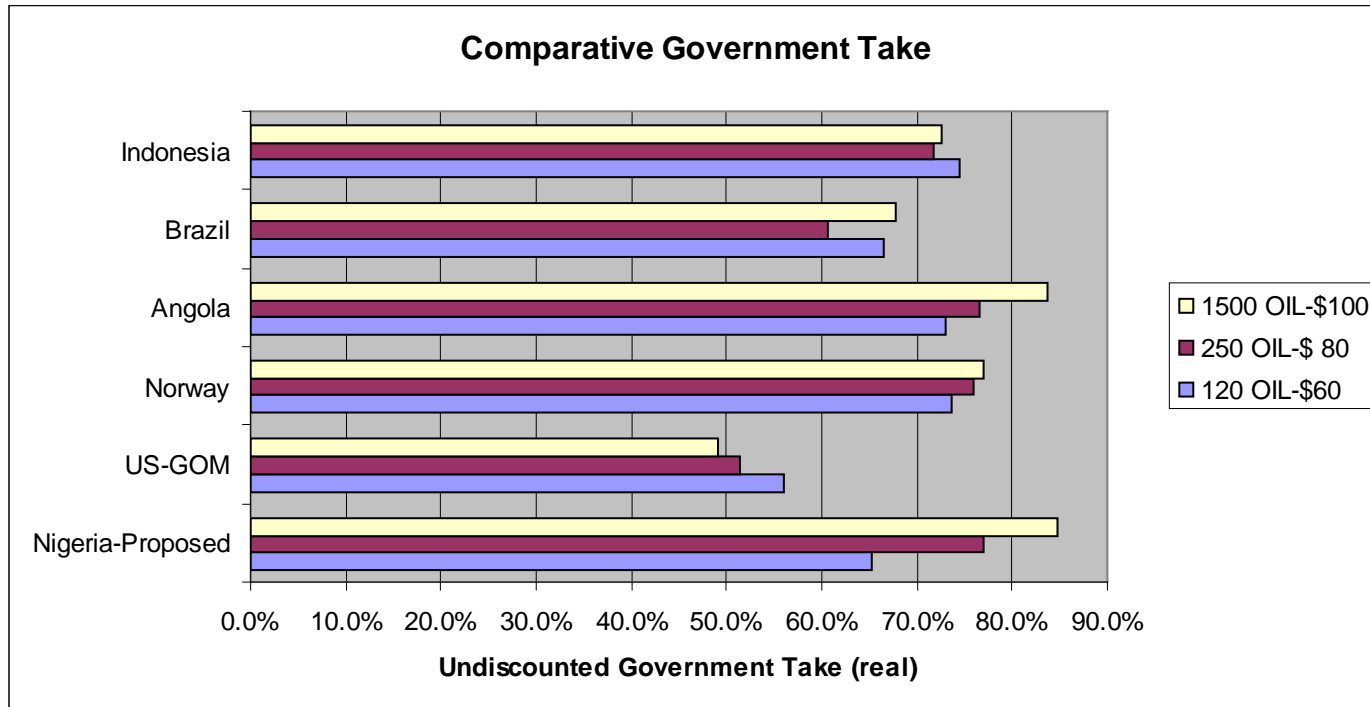


Impact of Fiscal Provisions: Encourages Development of Small Fields



Very small fields will have a low government take compared to current and international conditions in order to encourage the development of these fields by small Nigerian owned companies and marginal operators.

Impact of Fiscal Provision: Competitive terms compared to other Jurisdictions for Large Deep Water Fields



Despite the higher royalties and taxes, the proposed terms are competitive with other deep water terms in the world, and are favorable for small fields under low oil prices.



Further Fiscal Provisions ... PSC With NOC

- NOC to enter PSC based on Minimum Conditions set by Act
- Signature Bonuses to be Paid to Inspectorate
- Contract areas Ring Fenced for Cost and Profit Oil
- Cost Recovery Limit of 80%
- Introduces Non Recoverable Cost – Fair Market Value principle
- PSC to be based on Model Contract Approved by the Minister



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PART III: Upstream Petroleum

Incorporated Joint Ventures

- Interest held by NNPC in the Current JV shall be vested in the NNPC Ltd.
- Assets and interest in current JV to be transferred to a Limited Liability company
- Model article of association to be approved by the Minister
- Each IJV to be owned by parties to current JV in proportion as in current JV
- Parties to IJV will enter into a shareholders agreement.
- Parties may buy Crude Oil proportionate to equity on the basis of prices determined for Tax and Royalty purpose
- Rights of parties guaranteed proportionate to their interests.



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Midstream and Downstream Project Approval & Licensing



- **New projects or modification or expansions requires project approval certificates**
 - Certificates to include technical and commercial licenses
- **Commercial License required :**
 - Pipeline Transport
 - Petroleum Network
 - Supply of Downstream Products or Gas
 - Gas Distribution network
 - Refining, marketing or operating any petroleum processing or transmitting plant



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Midstream Operations, Downstream Products & Special provisions with Respect to Natural Gas



Refining:

- Products supplied at benchmark prices at import parity.
- Open access to storage and delivery facilities guaranteed.
- Ownership of Refinery Depots

Reorganization of Midstream & Downstream NNPC Assets:

- **PPMC split into two companies:**
 - National Transport Logistics Company- for product pipeline and bulk terminals and depots owned by the Government
 - Downstream Product Marketing Company owned by NNPC.

Nigerian Gas Company split into two companies

- National Gas Transportation Company for midstream Gas pipeline Transportation
- A downstream gas marketing company owned by NNPC limited.

Midstream Operations, Downstream Products & Special provisions with Respect to Natural Gas



- Assets of the National Transport Logistics Company to be divided into geographical regions and concessioned to storage depot companies
- Activities of regional depot companies limited to bulk storage and transportation.
- Open access to product pipeline systems, jetties, loading facilities and depots of the regional depot management guaranteed.
- Interconnections facilities to be ensured by the institutions.
- Ownership of independent pipelines and depots allowed.
- Provisions for tariff methodology, national strategic stock, operating stock and price monitoring.

Midstream Operations, Downstream Products & Special provisions with Respect to Natural Gas



Establishment of Network Code:

- Consultation with licensees and other stakeholders,
- Network code to be made available to interested parties

Wholesale Gas Market:

- Establish Classes of customers
- Whole sale customers entitled to secure Gas from any lease holder
- Guaranteed third party access

Gas Pricing:

- Establishes basis of Wholesale Gas prices
- Guarantees Customer protection
- Guarantees competitions
- Wholesale gas pricing shall be negotiated but agency to ensure transparency.
- Tariffs charged for transportation and distribution networks shall reflect reasonable and efficient investment/capital costs, operating/maintenance expenses and a reasonable return to licensees on their investments

Midstream Operations, Downstream Products & Special provisions with Respect to Natural Gas.....



Domestic Gas Supply Obligations.

- Provides support for the Government's Gas Master plan
- Provides for domestic gas supply requirements with aggregate gas price
- Establishes domestic gas market aggregator
- Aggregator to manage a gas model, gas curtailment and serve as intermediary.
- Creates gas franchises
- Requires gas export license



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Indigenous Oil Companies and Nigerian Content and Host Communities:



- **Support for Indigenous Upstream Oil Companies:**
 - No Federal Government participation
 - No quota restriction for production below 10,000 bpd.
 - FG to set targets for indigenous oil & gas reserves .
 - small field Allowances
 - Low Royalty rates for small producers
 - 0% NHT under certain conditions
 - Ownership leases for Marginal Field Operators
- **Measurable indigenous personnel participation.**

Indigenous Oil Companies and Nigerian Content and Host Communities:



- **Nigerian Content & Local Social Responsibility.**
 - No approval for FDP without an approved Nigerian content provision plan for projects exceeding \$10 million.
 - The NC plan to include purchase of Nigerian goods, procurement guidelines, employment of Nigerians, training, education, research & development and reporting.
 - **Specific provisions for local communities.**
 - **Mandatory provision for infrastructure development, education, employment of indigenes, purchase of goods from indigenes, creation & support of local businesses, training specific to local employment, consultation with communities and requirements for MOU.**

Part VI: Indigenous Oil Companies and Nigerian Content



Nigerian Goods & Services:

- Purchase of goods & services only where Nigerian alternatives are unavailable.
- Nigerian goods and services clearly defined.
- NC plan to include procurement procedures that allows purchase of Nigerian goods.
- Minimum Nigerian employment stipulated.
- Specific training and employment provisions



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Health, Safety & Environment:

- The Regulatory Institutions shall have responsibility over all aspects of health, safety and environmental matters without prejudice to the responsibility of the Federal Ministry of Environment.
- Clear Relinquishment, abandonment and restoration provisions
- Provides for Environmental quality management system



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Transparency, Accountability & Good Governance



One of the Fundamental objectives of Bill is full compliance with the NEITI Act, 2007 by all the institutions and the National Oil company to be established.

- Creates an open framework by eliminating confidentiality of :
 - All texts of licenses, leases, contracts and amendments
 - Amounts of revenue payments to government by individual companies.
 - All geological, geophysical , technical and well data.
 - Approved budgets of JVs & PSCs
 - Production, lifting/quantities and values lifted.

Transparency, Accountability & Good Governance



- Further Accountability and transparency Provisions:
 - A clear distinction between upstream, midstream and downstream.
 - Establishing an open and competitive bid process
 - Creating a uniform but flexible royalty and tax terms that apply to all.
 - Establishing equal conditions to regulated installations through open access rules
 - Clear guidelines for the revocation of licenses and leases.
 - All decisions of the Minister and on petroleum administration shall be based on equal rules applicable to all.



Conclusion

The implementation of these reforms will strongly open up the Nigerian Oil and Gas Sector to new local and international investors for competitive growth and sustainable development in line with international best practices. In particular, when the PIB is passed into law, it will help in:

- *The creation of a modern petroleum legal framework*
- *Alignment of the Nigerian Oil & Gas Sector to international best practice*
- *Enhancement of transparency and an open framework*
- *Establishing good governance practices and processes*
- *Reinforcing linkages between the oil and gas industry and other sectors of the Nigerian economy*
- *Support the energy objectives of Government enshrined in the seven point agenda.*