Participation of IOC's and IOC's in Oil & Gas Policy Directives by National Governments - Role of the Regulators

DEPARMENT OF PETROLEUM RESOURCES

ABUJA, FEBRUARY, 2008

ORDER OF PRESENTATION

- INTRODUCTION
- FUNCTION OF DPR
- NATIONAL ASPIRATIONS
- MARGINAL FIELD PROGRAM
- NATURAL GAS STRATEGY
- LOCAL CONTENT
- FUNDING ISSUES
- MEMORANDUM OF UNDERSTANDING
- CONCLUSION

INTRODUCTION

Map of Gulf of Guinea

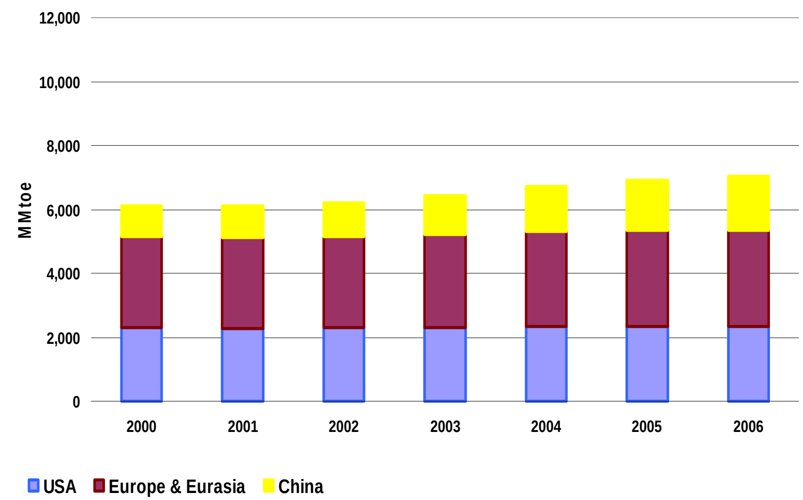
ENERGY CONSUMPTION

- Strong global economic growth are being experienced in China and India while Natural Gas Production has declined in the UK and US

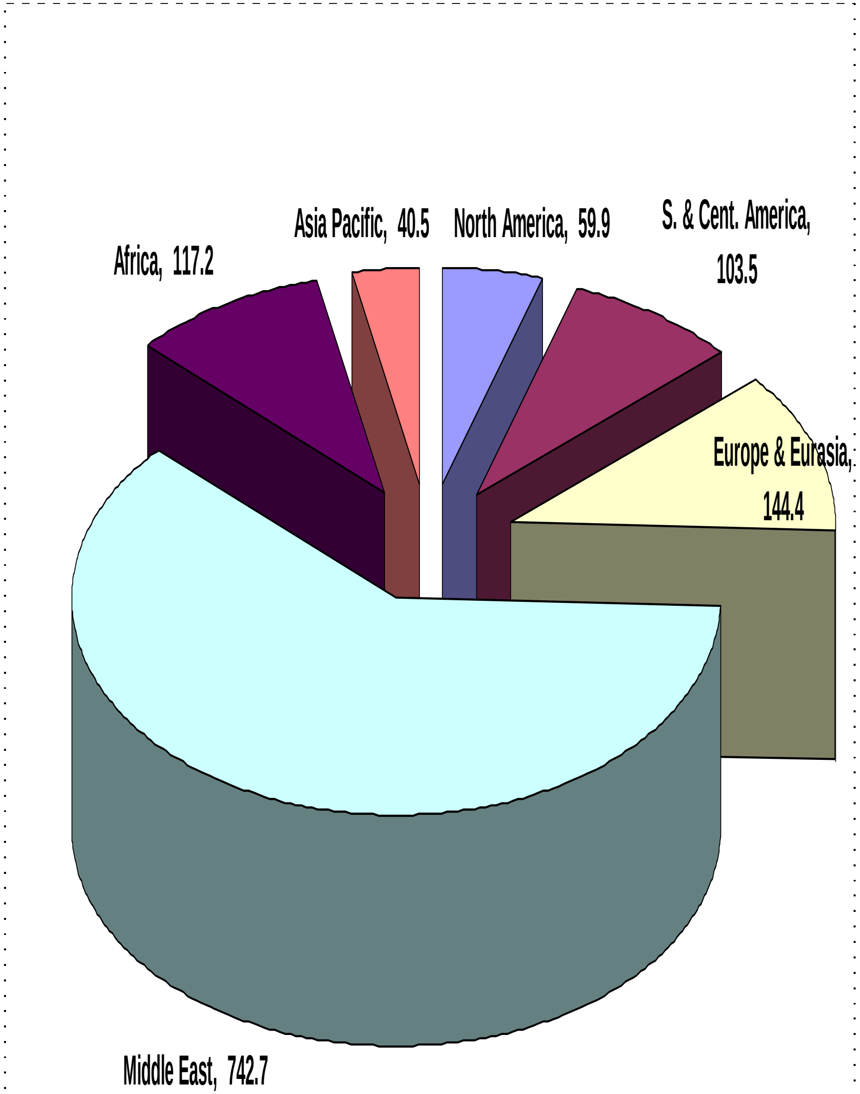
- Resulting in energy importing countries importing more, and exporting countries are also exporting more

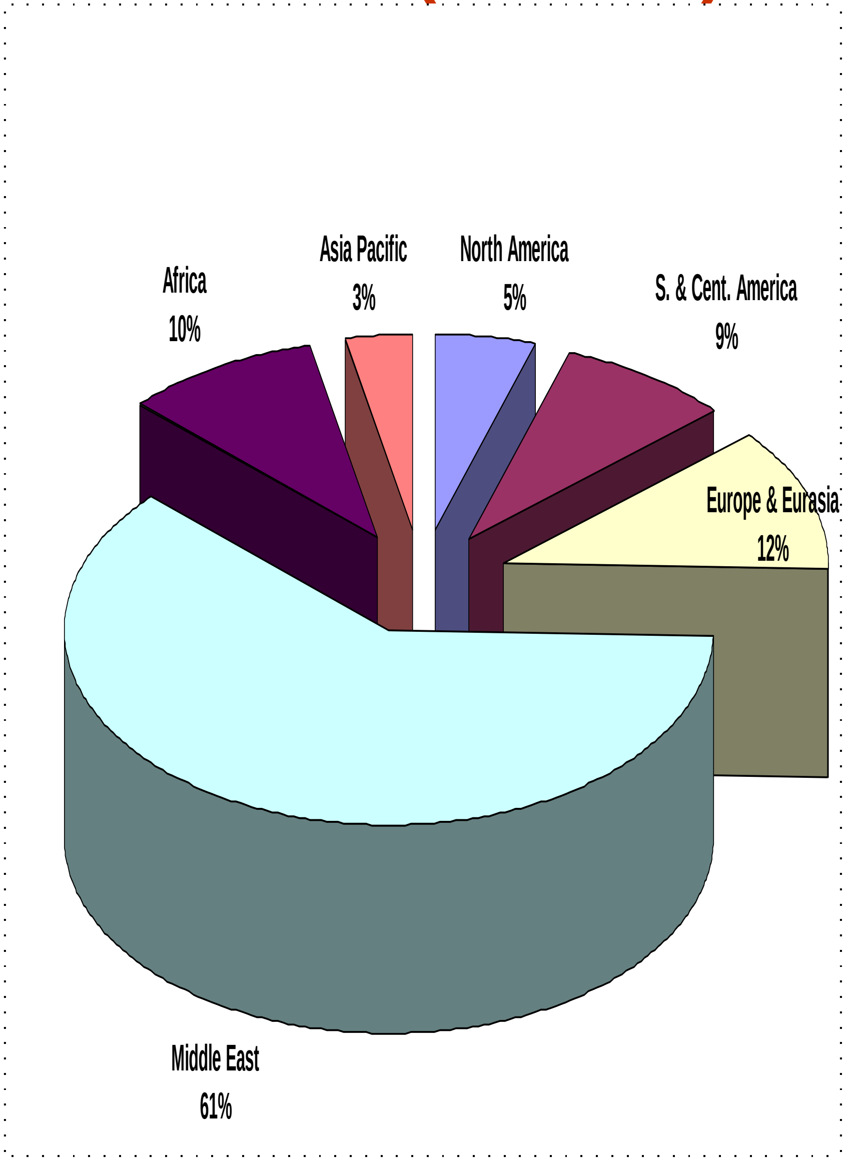
- Consumption growth rates will ensure that this trend continues in the immediate future.

WORLD ENERGY CONSUMPTION GROWTH

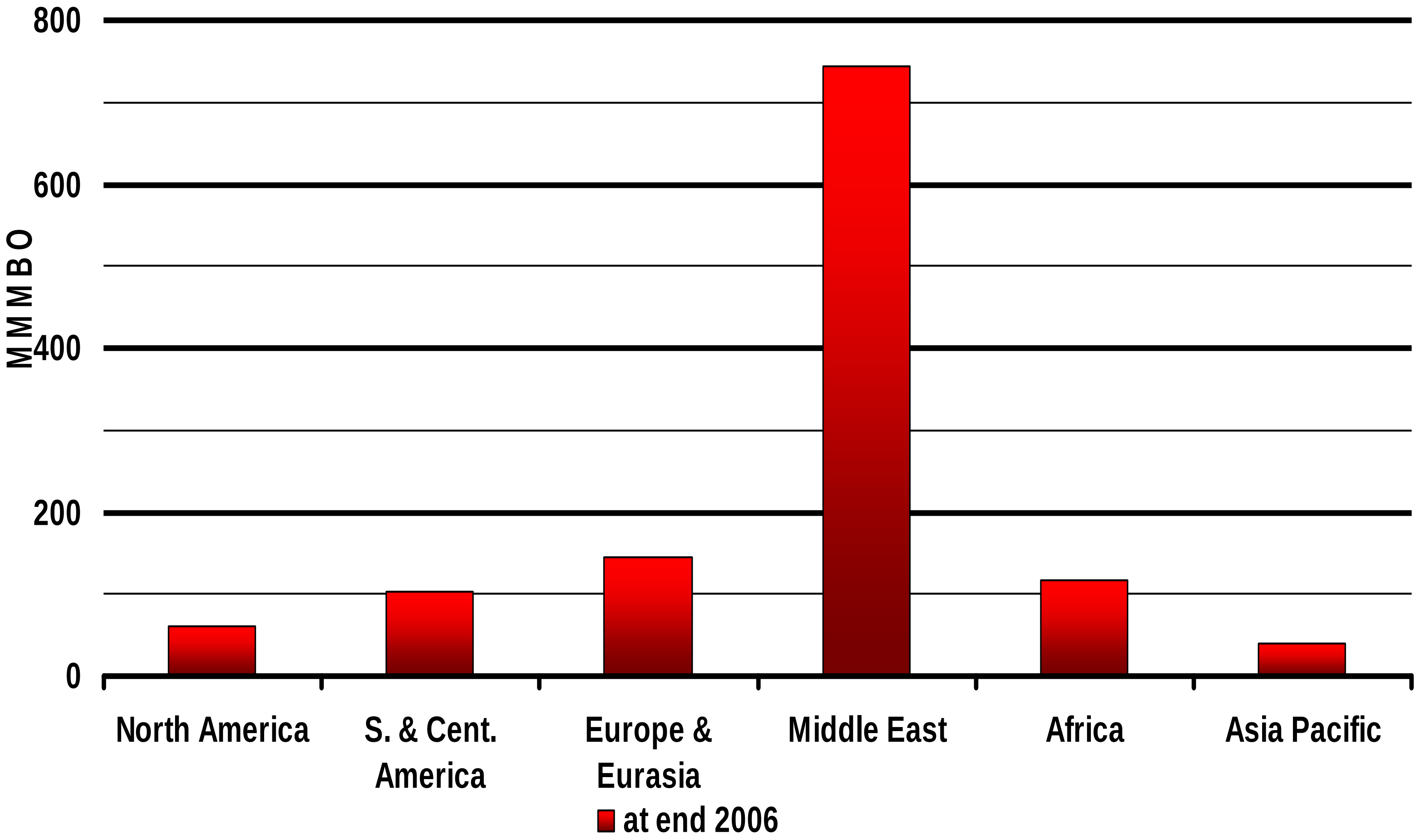


OIL PROVED RESERVES AS AT END 2006 (MMMBO/%)

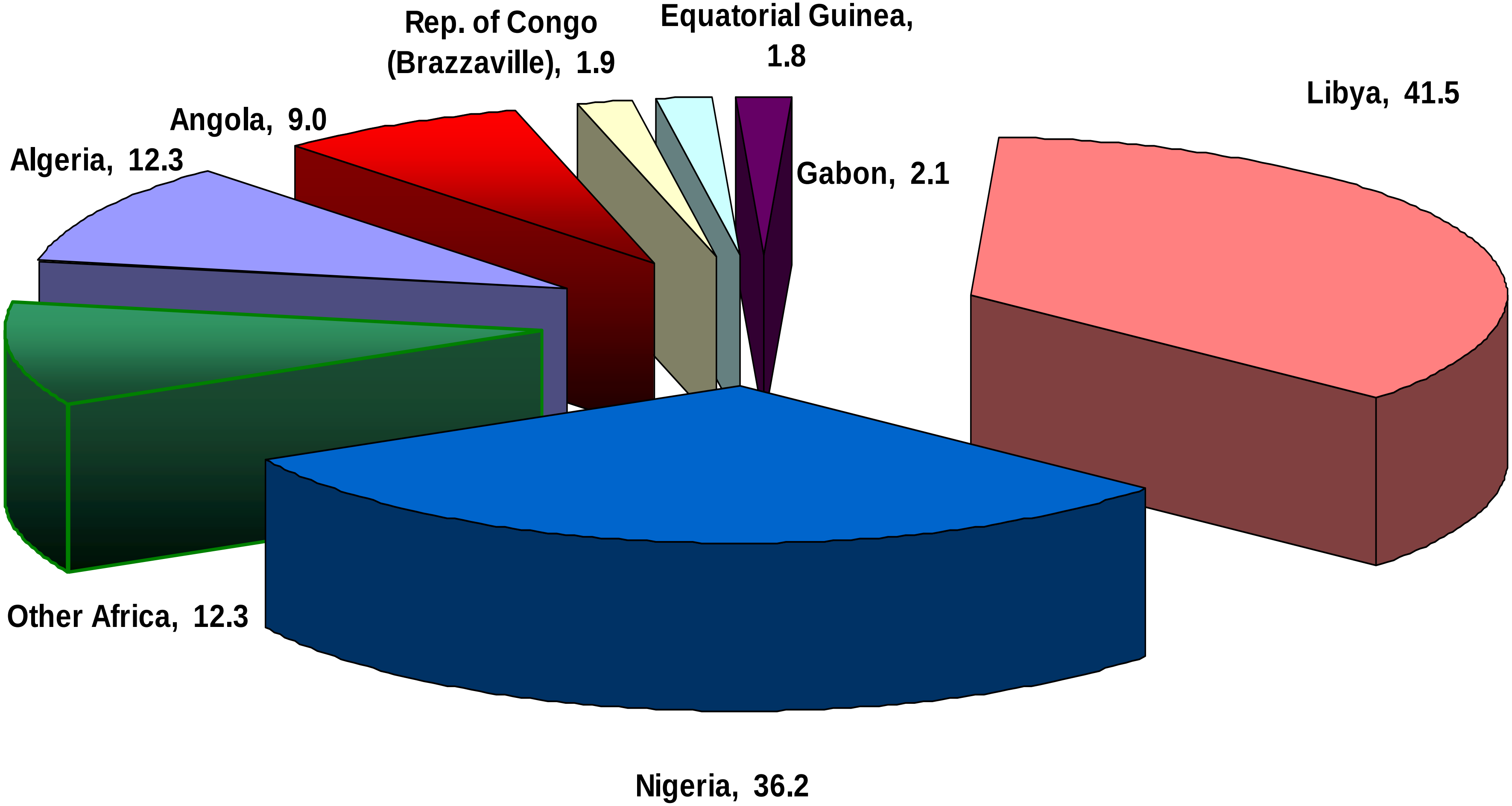




OIL PROVED RESERVES AS AT END 2006 (MMMBO)



AFRICA OIL PROVED RESERVES (MMMBO) AS AT END 2006



Major Gulf of Guinea Deepwater Discoveries

Fields	Date	Water Depth (m)	Onstream Date	Reserves (Billion Bbls)
Nigeria				
Bonga	1996	1000	2005	800
Abo	1997	600	2003	250
Ngolo	1997	800	2010	400
Chota	1998	1050	2011	400
Ukot	1998	700	2009	300
Agbami	1999	1450	2008	750
Erha	1999	1200	2006	650
Bonga SW	2001	1000	2009	530
Bolia	2001	1000	2011	545
Sub Total				4625
Angola				
Girassol	1996	1360	2003	790
Kizombo	1997	1011	2005	450
Dalia	1997	1360	2004	830
Plutonio	1999	1362	2005	250
Sub Total				2320
Congo				
Moho	1995	800	2001	400
Bilondo	1998	546	2004	300
Sub Total				700
Equitorial Guinea				
La Ceiba	1999	660	2001	200
Grand Total				7845

DPR

- SUPERVISING ALL OPERATIONS CARRIED OUT UNDER LICENCE AND LEASE IN THE COUNTRY TO ENSURE COMPLIANCE WITH THE APPLICABLE LAWS AND REGULATIONS

- ENFORCING SAFETY AND ENVIRONMENTAL REGULATIONS AND ENSURING THAT OPERATONS CONFORM WITH NATURAL AND INTERNATIONAL PRACTISES AND STANDARDS

- ADVISING GOVT AND RELEVANT AGENCIES ON TECHNICAL MATTERS AND POLICIES WHICH MAY IMPACT ON THE MANAGEMENT OF OUR PETROLEUM RESOURCES

DPR

- **TO REGULATE AND SUPERVISE ACTIVITIES IN THE PETROLEUM INDUSTRY**

- **DOES THIS THROUGH EXISTING LAWS AND REGULATIONS**

- **TO DWELL ON SOME THAT ARE TYPICAL AND CRITICAL TO NATIONAL DEVELOPMENT**

NATIONAL ASPIRATIONS

- **1999-2003 NATIONAL OBJECTIVES**
  - **30 Billion bbl reserves**
  - **3.0 Million bbl/d prod.**
- **CURRENT STATUS**
  - **36 Billion bbl reserves**
  - **2.2 Million bbl/d prod.**
- **VISION 2010**
  - **40 Billion bbl reserves**
  - **4.5 Million bbl/d prod.**

MARGINAL FIELD PROGRAM

DEFINITION OF MARGINAL FIELD

- A MARGINAL FIELD IS ANY FIELD THAT HAS RESERVES BOOKED AND REPORTED ANNUALLY TO THE DEPARTMENT OF PETROLEUM RESOURCES (DPR) AND HAS REMAINED UNATTENDED TO FOR A PERIOD OF TEN YEARS

- OTHERS ARE FIELDS
  - WITH AN EXPLORATORY WELL IN THEM AND ARE REPORTED AS OIL AND OR GAS DISCOVERIES
  - WITH CRUDE OIL CHARACTERISTICS DIFFERENT FROM CURRENT STREAMS
  - WITH HIGH GAS AND LOW OIL RESERVES

DEFINITION OF MARGINAL FIELD

- FIELDS ABANDONED BY OPERATORS FOR UPWARDS OF THREE YEARS FOR ECONOMIC REASONS
- FIELDS CONSIDERED FOR FARM-OUT BY OPERATORS DUE TO PORTFOLIO RATIONALIZATION
- IT SHOULD BE NOTED THAT UN-PRODUCED DISCOVERIES ON OPEN LEASES DO NOT QUALIFY FOR FARM-OUT AS THEY WOULD CONSTITUTE PART OF THE WHOLE ACREAGE THAT WOULD BE AWARDED IN A NEW LICENSING ROUND TO FURTHER ENCOURAGE EXPLORATION ACTIVITIES ON THE LEASES

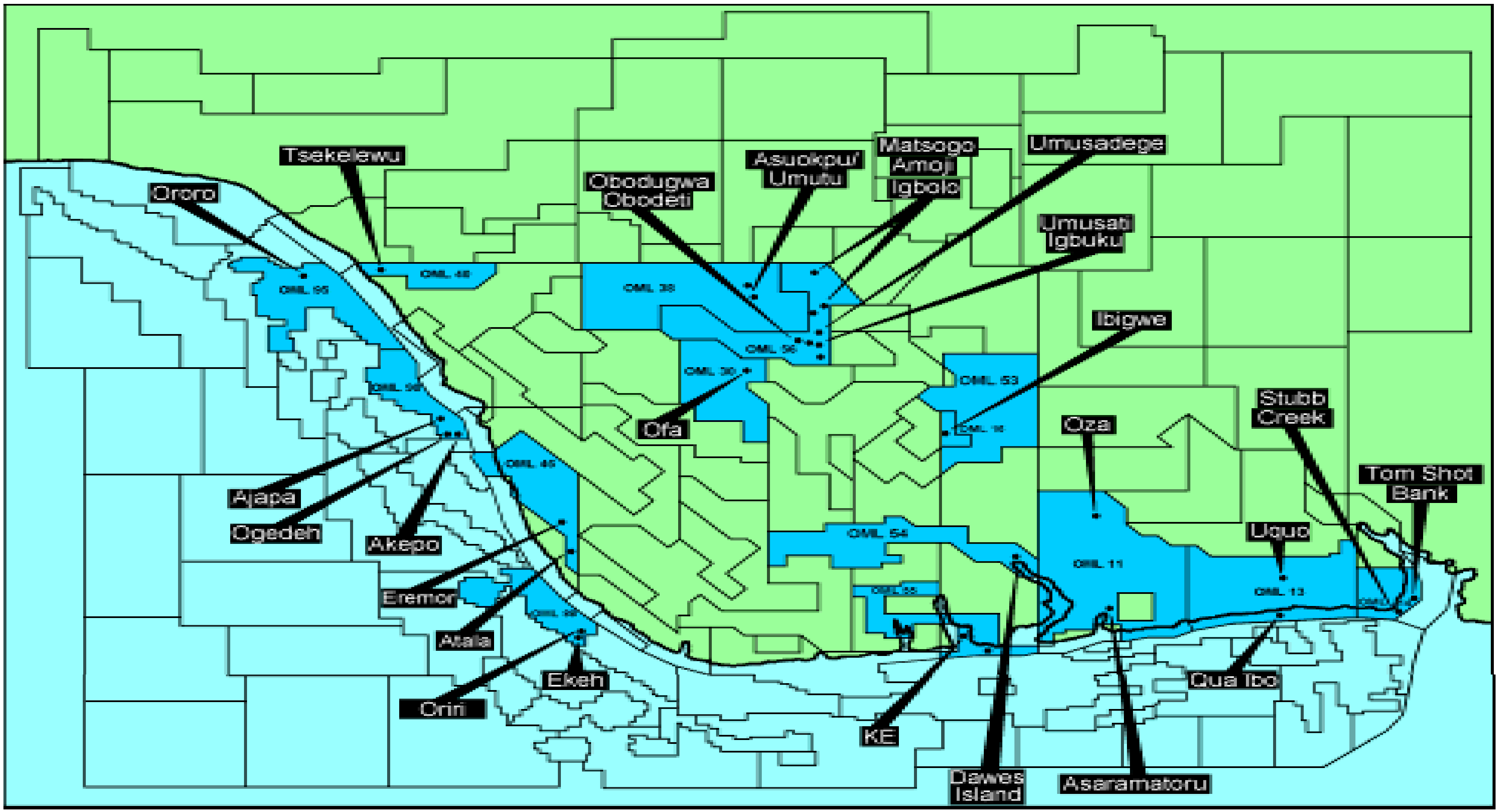
BACKGROUND

- THE NIGERIAN PETROLEUM INDUSTRY IS MATURED AFTER HAVING OVER 40 YEARS OF EXPLORATION AND PRODUCTION EXPEIENCE
- THERE WAS THE NEED TO OPEN UP INDUSTRY ACTIVITIES TO OTHER PLAYERS, PARTICULARLY INDIGENOUS ENTREPRENEURS
- MARGINAL FIELD DECREE WAS ENACTED IN 1995
- THE IDEA DID NOT GO DOWN WELL WITH OPERATORS
- THROUGH DIALOGUE AND CONSTRUCTIVE ENGAGEMENT, THE OPERATORS BECAME A MAJOR DRIVER OF THE PROGRAM
- WIN-WIN SITUATION CREATED
- PROCEDURE FOR IDENTIFICATION OF MARGINAL FIELDS WHICH INCLUDED CONSULTATIONS WITH CURRENT CONCESSION HOLDERS
- OF THE IDENTIFIED FIELDS, 24 WERE PUT ON OFFER IN THE 1ST ROUND.

OBJECTIVES OF THE MARGINAL FIELD PROGRAMME

- PROVIDE OPPORTUNITY TO GAINFULLY ENGAGE THE POOL OF HIGH- LEVEL TECHNICALLY COMPETENT NIGERIANS IN THE OIL & GAS BUSINESS.
- EXPAND THE SCOPE OF PARTICIPATION IN NIGERIA'S OIL AND GAS INDUSTRY.
- ATTARACT ADDITIONAL CAPITAL INTO THE PETROLEUM SECTOR OF THE ECONOMY.
- INCREASE THE OIL AND GAS RESERVES BASE THROUGH AGGRESSIVE EXPLORATION.
- PROMOTE INDIGENOUS PARTICIPATION IN THE OIL INDUSTRY THEREBY FOSTERING TECHNOLOGY TRANSFER.

MARGINAL FIELD LOCATIONS



FINANCING MARGINAL FIELD PROJECT

- THROUGH THE TECHNICAL PARTNER
- USING INVESTMENT HOUSES TO RAISE FUNDS IN FORM OF SHARES, STOCKS AND BONDS
- THROUGH BANKS AND FINANCIAL INSTITUTIONS COMING TOGETHER TO FORM CONSORTIUM OR EMBARK ON LOAN SYNDICATION

NATURAL GAS STRATEGY

WHY GAS POLICY ?

- Focus had been more on oil, and it is generally agreed that Nigeria has more gas than oil
- Legislation (comprehensive in nature) exists for oil
- The current laws on gas are generally reactive rather than proactive
- Fiscal system solely for crude oil production
- Fiscal terms in gas are project specific rather than being of general application e.g. AGFA 1991, NLNG decree
- Incentives appear as after thought – Financial (Miscellaneous Taxation Provisions) Decrees 18 of 1998 and 30 of 1999
- Absence of a realistic pricing system and its negative effect on investment
- Gas commercialisation drive of Government

NATURAL GAS POLICY – Objective

- The gas policy therefore sets to address gas issues including:
  - Relationship of government to the private sector
  - Legislative authority for gas projects
  - The roles and responsibilities of all participants in the gas chain
  - Guidelines for gas pricing
  - Fiscal incentives for gas projects
  - Rules for access to sector infrastructure
  - The role of the gas sector in the industrial development strategy of Nigeria

GAS STRATEGY

- **Market diagnostic**
  - **Existing and Potential Markets**
  - **Current conditions**
  - **Institutional, Legal, Regulatory and infrastructural Constraints**
  - **Tariffs and Prices**
- **Restructuring Options**
  - **Market structure**
  - **Enhancing the Participation of Private Sector**
- **Implementation Plan**
  - **Policies, Laws & Regulations and Institutional Changes**
  - **Integrated Implementation of Gas Sector Restructuring**

STAGES IN THE FORMULATION OF THE NATIONAL GAS POLICY

- Appointment of Consultants - June 2002
- Two-phase study leading to:
  - Diagnostic Report
  - Options for Reform Report
- First Stakeholder Workshop Dec 2002:
- Discussed options and agreed on broad strategy
- Circulated Gas Strategy Consultation Paper
  - Comments from stakeholders analysed and incorporated in final version of Strategy document
- Produced an Implementation Plan & Outline Legislation
- Second Stakeholder Workshop June 2003
  - Consider final Strategy and Implementation Plan
  - Comments from stakeholders analysed and incorporated in preparing the Draft:
    - National Gas Policy
    - Downstream Gas Act

LOCAL CONTENT

Local Content -

- The Nigerian oil industry is more than five decades old.
- However, the level of Nigerian content In the past three years has improved considerably.

Lessons from Other Nations

- Local content policies entrenched in their legislation
- Operating license agreements incorporated capacity building clauses
- Substantial share of nations' acreage were allocated to national oil companies
- Development of R&D in-country was a strong prerequisite for winning a license
- Favourable macro-economic environment; infrastructure for business development and social infrastructure
- Some measure of (temporary) protection granted to local industries
- Local refining of stated % of crude oil production

Impediments to Local Content Growth

- Local content policies not entrenched in our legislation
- Inadequate and incoherent policies and legislations as well as implementation
- Low technological capacity of local coys
- Inadequate physical and social infrastructure
- Limited avenues for funding
- Non-conducive business environment
- Uncompetitive business structure of indigenous companies
- Bureaucracy and credibility issues

Initiatives on Local Content Development

- **Adoption of open competitive bidding for most projects**
- **Requiring bidders' provision for local content in ITT response**
- **Encouraging operating partners to carry out enlightenment programs for indigenous contractors**
- **Domestication of reservoir management and seismic processing projects**
- **Breaking major projects into small manageable packages to accommodate indigenous contractors**

Achievement on Local Content

- **Local fabrication of Elf's Amenam/Kpono drilling/platform, span bridge and tripods**
- **Fabrication of SPDC's 120,000bopd Focardos Yokri and 45,000 Tunu flowstations**
- **Construction of 7,000bopd Chevron's Meren x wellhead platform in Lagos by Nigerdock/Transcoastal**
- **Fabrication of SPDC's pressure vessels and scrubbers for Forcados Yorkri by Dorman Long in Lagos**
- **Supply of drilling rig and provision of integrated drilling services by local companies**
- **Fabrication of some components of Bonga and Agbami (buoy, metering skid, laydown module and flare-boom) locally**

Local Content

The Challenges:

- **Achieve 45% local content by 2007 and 70% by 2010**
- **Legal framework for fast-tracking improvement in local content**
- **Strategies for improving local staffing of multinational oil companies**
- **Strategies for achieving significant foreign investment**

Local Content

- Sought the assistance of those with experience especially Norway and the operators
- Resulted in the preparation of a document that spelt out all the steps required to accelerate the process of attaining a high level of local content
- A bill to give legal backing to this initiative is still in the works
- In the meantime, NNPC has taken the bull by the horn:
    - Leveraging on its JV partnership and control over PSC agreements in the areas of contract award
    - Partnering with PTDF in devising means for bridging the skills gap
    - Providing “seed” money/funds to which local companies could draw from to finance projects

FUNDING ISSUES

LEVEL OF FUNDING

- Current JV Budget is about $5.0 billion as against a proposal of about $10.0 billion
- This is inadequate to meet the level of planned activities
- Resulting in slippages in project deadlines and drastic reduction in the level of activities
- Thus the imperative for alternative funding methods which has been adopted for some new projects such as Amenam-Kpono, EA/Eja, Yoho
- Old fields and projects within the JV are not able to benefit from this innovation
- Activities especially facilities that are overdue for revamp/rehabilitation remain neglected
- Efficiency/Intergrity is compromised

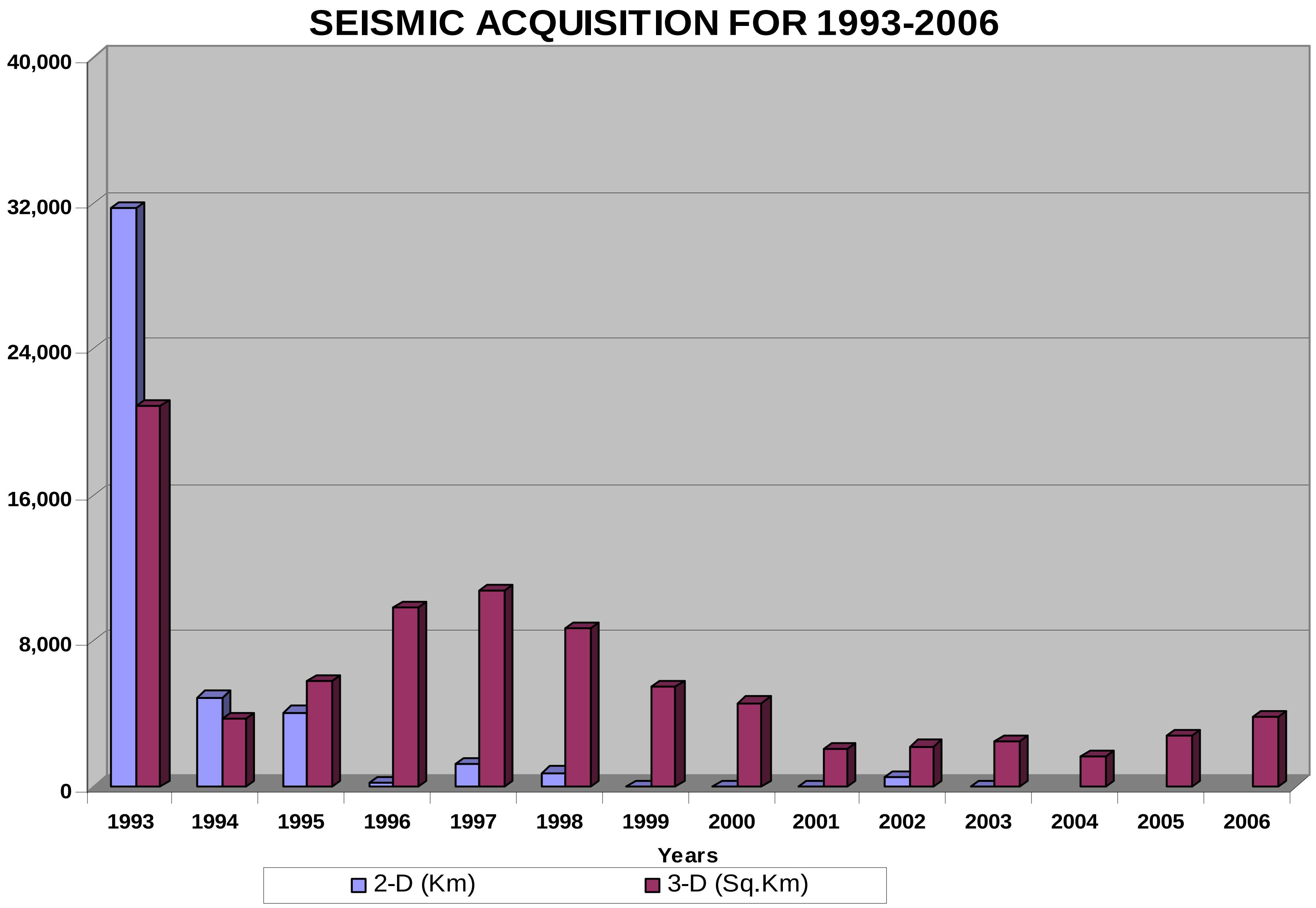
LEVEL OF FUNDING

•However more realistic funding alternatives need to be considered.

•Such alternatives include:

- Reducing Govt. Cash Call commitment
- Optimising industry processes and practices
- Creatively tapping non traditional sources of funding

- A more effective way of reducing the burden of funding on activities is the adoption of PSC in the operation of all concessions
- This has been widely applied to all the blocks awarded in all the Licensing Round since the Year 2000
- Migrating some of the JV Oil Blocks to PSC terms is also being considered


SEISMIC ACQUISITION FOR 1993-2006
40,000
32,000
24,000
16,000
8,000
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Years
2-D (Km)
3-D (Sq.Km)

LEVEL OF ACTIVITIES

- Exploration Budget (2007)

	$ m
• Sole Risk	818.6
• PSC	944.5
• JV	348.4
Total	2,111.5

MEMORANDUM OF UNDERSTANDING (MOU)

- THE MOU IS AN AGREEMENT BETWEEN THE GOVERNMENT & OPERATORS

- PROVIDES CERTAIN INCENTIVES TO AN OPERATOR FOR CERTAIN WORK PROGRAM COMMITMENT.

- INTRODUCED IN 1986

- REVISED IN 1991 & 2000

- THE 1991 MOU PROVIDES AMONGST OTHERS RESERVES ADDITION BONUS CLAIMS (RAB) FOR ADDING MORE TO THE CRUDE OIL RESERVES THAN WAS PRODUCED IN A PARTICULAR YEAR

- TO ENCOURAGE THE OIL PRODUCERS TO INCREASE INVESTMENTS IN EXPLORATION AND DEVELOPMENT ACTIVITIES AND ENHANCE CRUDE OIL EXPORTS.

- ERODES GOVERNMENT TAKE AS DEFINED UNDER THE PPT ACT

CONCLUSION

- THE DPR RECOGNISES THE ROLE OF IOC’s & IOC’s AS VERITABLE VEHICLES FOR THE OVERALL DEVELOPMENT OF THE INDUSTRY
- A LOT OF BENEFIT HAS BEEN DERIVED FROM INTERACTIONS ESPECIALLY IN BENCHMARKING - AS THEY HAVE VARIED EXPERIENCE WHICH IS WORLDWIDE
- GIVES THE OPERATORS SOME SENSE OF BELONGING AS POLICIES ARE NOT JUST HANDED DOWN FOR IMPLEMENTATION
- THE INTERACTION NEEDS TO BE ENCOURAGED AND SUSTAINED
- DPR IS INVOLVED IN CONTINUOUS ENGAGEMENT WITH OPERATORS IN ADVANCING GOVERNMENT’S ASPRIRATIONS FOR THE INDUSTRY

THANK YOU

FOR

YOUR KIND ATTENTION