2017 MARGINAL FIELD BID ROUNDS

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Background

Going by the recent statement by the Group Managing Director of the NNPC, Dr. Maikanti Baru, the Federal Government is poised to commence the 2017 marginal field bid rounds. This much anticipated exercise comes in the wake of a number of initiatives under President Muhammadu Buhari's administration which are aimed at ensuring the efficient use of Nigeria's hydrocarbons such as the National Gas Policy, the National Oil Policy, and the "7 Big Wins- Short and Medium Term Priorities to Grow Nigeria's Oil and Gas Industry" initiative published by the Ministry of Petroleum Resources (the **Ministry**).

Marginal Field Regime in Nigeria

The first formal marginal field bid round was concluded in 2003, when the Federal Government awarded 24 marginal fields to 31 indigenous oil and gas companies. Further to this, another 6 marginal fields were awarded to indigenous oil and gas companies, 5 being on a discretionary basis[3]. Again in 2013, the Federal Government initiated another marginal field bid round, which unfortunately, was never implemented. If the proposed bid round which is expected to culminate in the award of an additional 30 marginal fields, is successful, this would increase the total number of marginal fields awarded thus far in the country, from 30 to 60.

The legal framework for the award of marginal fields[1] in Nigeria is provided for in the Petroleum Act which recognizes that a holder of an oil mining lease may farm out any marginal field within a leased area subject to such terms and conditions as may be approved by the President. Alternatively, the President may cause the farm-out of a marginal field if the marginal field has been left unattended for a period of not less than ten years from the date of first discovery of the marginal field.[2]

In addition to the Petroleum Act, the *Guidelines for the Farmout and Operation of Marginal Fields* (**Guidelines**) which are issued by the Department of Petroleum Resources (**DPR**), regulates the processes, stages and application requirements for applicants interested in participating in the bid rounds, as well as sets out the rights and obligations of the farmees. The first of the Guidelines was issued in 2003 to regulate the 2003 bid round whilst the latest was issued in 2013 with respect to the botched 2013 bid round. The expectation is that fresh Guidelines would also be issued to regulate the 2017 bid round.

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1. *The Petroleum Act, defines marginal fields simply as such field as the President may from time to time identify as a marginal field. The 2001 the Guidelines for Farm-Out and Operation of Marginal Fields (**2001 Guidelines**) however define marginal fields to be any field that has reserves booked and reported annually to the Department of Petroleum Resources (**DPR**) and has remained un-produced for a period of over 10 years; similar language is also adopted in the 2013 Guidelines for Farm-Out and Operation of Marginal Fields (**2013 Guidelines**) for the definition of marginal fields*
2. *See Paragraph 17 of the First Schedule to the Petroleum Act*
3. *https://www.vanguardngr.com/2015/04/marginal-fields-18-licences-under-revocation-threats/*

Key Points to Note

The announcement of the proposed bid rounds has elicited different reactions from stakeholders in the industry, with some concerns that despite government's professed commitment to seeing the process to fruition this year, it may take some time for the process to actually take off in the light of the time required to put all preparatory arrangements in place including preparation of the data and other back room processes required to launch the bid round.

As it pertains to preparations for the bid rounds, key areas/requirements that potential bidders may want to pay attention to include, putting together appropriate corporate structures for the entities that would participate in the bid, taking into consideration, applicable local content requirements.

Potential bidders would also be required to demonstrate requisite upstream experience, as well as the technical capacity to develop the marginal field. Thus, for most indigenous companies, developing the right technical partnership is critical, as failure to do so would not only affect the bid, but may also impact negatively on the operations of the licensee, if selected. Accordingly, the need for potential bidders to conduct proper due diligence on potential technical foreign partners as well as the contractual and other arrangements underpinning their relationship with such partners cannot be over-emphasized.

Closely aligned to technical capacity is the need for adequate financing arrangements with potential financial partners. This also includes preparation of adequate financing and other documents. Along these lines, a key bankability concern for financers as well as bidders themselves is the availability of adequate oil reserves in the marginal field(s), crude properties and the level of technology and funding required to develop the field(s). This is particularly key given the current volatility in the oil market coupled with diminished returns from oil production.

Experiences of the past, and not just from former marginal field bid rounds, but also from the sale of other critical assets such as the sale of the distribution companies in the power sector, has shown the importance of proper commercial and technical due diligence exercises prior to submitting bids. In addition, it is important to critically evaluate the accuracy of data relating to the asset the bidder wishes to acquire, as a precursor to settling on the particular field to bid for. Other areas to mull on (though not necessarily related only to the bid process) include options for evacuation of the production/export capacity, as well as alternatives, proposed measures to address insecurity of the oil and gas assets as well as host community issues.

Furthermore, it may be useful for prospective bidders and other stakeholders to engage with the DPR, to elicit necessary information on any terms and conditions that the federal government may wish to include as part of the marginal field programme, development of gas resources within the marginal fields and supply of gas to strategic demand sectors such as power plants and fertilizer plants.

Conclusion

Whilst we await the implementation of the proposed 2017 bid rounds, it is important for companies interested in participating in the rounds, as well as other relevant stakeholders, to begin to prepare and position themselves with a view to taking advantage of the benefits and opportunities of the marginal field programme. Whilst the DPR is yet to issue any Guidelines which spells out the criteria for the bid rounds, the expectation is that the terms would not be significantly different from the earlier Guidelines. It is also important for aspiring applicants to begin to form the necessary alliances and collaborations with prospective technical and commercial partners, as well as other advisers required to provide necessary support for the process.