

# NEWSLETTER

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## EXAMINING NUPRC'S PETROLEUM LICENSING REGULATIONS, 2022

### INTRODUCTION

In November of 2022, the Nigerian Upstream Petroleum Regulatory Commission ("NUPRC" or "the Commission") introduced and gazetted the Petroleum Licensing Regulations as part of its post PIA regulations framework for players in the upstream oil and gas space. The Regulations apply specifically to bid rounds conducted for the grant of petroleum prospecting licences and petroleum mining leases, and aim to establish a seamless and comprehensive framework for conducting fair, transparent, competitive bidding processes for the granting of these leases and licences. The Regulations, consisting of 26 key provisions, govern the general administration, licensing rounds, qualification criteria, bid submission, evaluation parameters, and

subsequent procedures involved in grant of these licences. By providing a fair and competitive bidding process, the regulations seek to attract qualified applicants and maximise the efficient exploration and extraction of petroleum resources. In this article, we will review some of the significant provisions outlined in the regulations and discuss their implications for the petroleum industry

### GENERAL ADMINISTRATION IN RELATION TO LICENSING ROUNDS

To ensure transparency and effective communication, the regulations mandate the publication of a licensing round plan that includes government policies, proposed activities, and relevant information on the Commission's website.

The plan serves as a guide for potential bidders and stakeholders, outlining the long-term management of petroleum resources, reserve targets, gas utilisation objectives, indigenous participation, and development of carbon capture infrastructure. Additionally, the regulations emphasise engagement with bid participants and stakeholders through press statements, issuance of licensing round guidelines, and the establishment of a data room accessible to eligible participants.

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## QUALIFICATION AND PRE-QUALIFICATION

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The regulations outline stringent legal, financial, and technical criteria that applicants must satisfy to qualify for participation in the licensing round process. Companies or consortia must demonstrate compliance with incorporation requirements, financial stability, and technical capabilities related to oil and gas field operations. The regulations also allow newly incorporated companies in Nigeria to provide information about their parent companies to meet the pre-qualification criteria. Failure to meet any of the pre-qualification criteria, submission of false information, or non-compliance with confidentiality agreements may result in disqualification.

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## BID SUBMISSION AND EVALUATION PARAMETERS

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The Regulations provide detailed guidelines for bid submission, requiring physical and electronic submission of bid proposals and bid guarantees. Bids are opened publicly in the presence of representatives from various government bodies and the public. The evaluation parameters for determining the winning bid include signature bonus, royalty, profit split, work programme commitment, and bid points. Bidders must meet the minimum requirements and offer competitive

terms to secure the licence or lease. The regulations allow for the rejection of bid proposals that do not comply with the prescribed parameters or contain false information.

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## WHEN A BID MAY BE REJECTED

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The Regulations establish clear provisions for the rejection of a bid proposal. By the regulations, the Commission is empowered to reject a bid during the opening of proposals or subsequently based on various grounds. These grounds range from non-compliance with pre-qualification criteria, to submission of incomplete or misleading information, conditional bids, attempts to influence the bid process, or failure to comply with confidentiality agreements. Additionally, bidders who present false information, create obstacles, or engage in actions that circumvent the bid process may also face rejection. The regulations ensure that the bidding process maintains its integrity, fairness, and transparency by promptly identifying and disqualifying bids that do not meet the prescribed standards, protecting the interests of both the industry and the government.

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## BIDDING FISCALS

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The Regulations outline key provisions related to financial aspects of the bidding process, including signature bonus, royalties, and profit split. The signature bonus, as specified in Section 74(2)(a)(i) of the PIA, is an amount offered by the winning bidder upon the granting of a petroleum prospecting license or petroleum mining lease. The Regulations stipulate that the Commission may determine the minimum signature bonus to be paid into the Federation Account. Royalties, as per Section 74(2)(a)(ii) of the Act, refer to additional royalties applicable to the volume of production, which may be expressed as a percentage with up to three decimals.

The Commission has the authority to establish the minimum and maximum additional royalties acceptable under a bid proposal. Additionally, the Regulations address profit split or profit oil split, as per Section 74(2)(a)(iii) of the Act. This refers to an additional percentage of profit oil or profit split applicable to the entire sliding scale in the model contract. The Commission can determine the minimum and maximum additional percentages under the bid proposal, considering factors such as the sliding scale. These financial provisions ensure transparency and provide a framework for fair distribution of financial benefits between the winning bidder and the government.

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## CONCLUSION

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The Petroleum Licensing Regulations introduce a comprehensive framework for conducting fair and competitive bidding processes in the petroleum industry. By emphasising transparency, engagement, and strict qualification criteria, the regulations aim to attract capable participants and maximise the effective management of petroleum resources. The provisions outlined in these regulations lay the foundation for a robust licensing system that promotes investment, technological advancement, and responsible exploration and extraction of petroleum reserves.

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