

NEWSLETTER

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EXAMINING THE FRONTIER BASINS EXPLORATION ADMINISTRATION REGULATIONS, 2023

INTRODUCTION

For years on end, Nigeria has held on tightly to the toga of being a potential powerhouse in the global energy landscape, largely because of its abundant reserves of crude oil. Despite its vast resources however, the country remains unable to fully outlive the title of 'potential' and take on a more befitting reputation as an actual powerhouse in the global energy market. This is as a significant portion of these reserves remain untapped and unexplored due to various challenges such as a lack of substantial investments in the sector among others. However, the recent passage of the Petroleum Industry Act (PIA) has presented a crucial opportunity to unlock the full potential of Nigeria's oil and gas assets. The

PIA's emphasis on exploring frontier basins is a pivotal step towards developing these untapped resources and harnessing the nation's energy potential. In furtherance of this, the Nigerian Upstream Petroleum Regulatory Commission ("the Commission") has issued a set of Regulations aimed at providing a framework for the effective exploration and development of frontier basins in Nigeria's oil and gas sector.

The Regulations set out the general rules for the Commission's responsibilities regarding frontier basins, administering the Frontier Exploration Fund, and attracting investments to these areas. Essentially, they apply to unlicensed acreages in the

frontier basins , as well as any other operations as may be authorised by the Commission relating to exploration activities in the frontier basins in upstream petroleum operations The Regulations also outline the procedures for the establishment of an Escrow Account, payment contributions, and reporting requirements to ensure transparency and accountability in the exploration activities. In this newsletter, we shall explore and analyse these regulations while trying to shed some light on the potential benefits and challenges that come with this critical initiative.

ESTABLISHMENT AND ADMINISTRATION OF THE FRONTIER EXPLORATION FUND

The regulations mandate the Commission to establish a Frontier Exploration Fund Escrow Account (“Escrow Account”) in consultation with the NNPC Ltd. The account is to be domiciled in any tier 1 commercial bank of repute and should comprise a USD account and Naira account. NNPC Ltd is obligated to remit 30% of profit oil and 30% of profit gas from production sharing contracts, profit-sharing contracts, and risk service contracts into the Escrow Account.

The Commission is tasked with the responsibility of administering the fund in the Escrow Account, as well as ensuring that the funds are solely utilised for exploration and development of oil and gas resources in the frontier basins.

UTILISATION OF THE FUND

The Frontier Exploration Fund is to be exclusively utilised for exploration and development activities in Nigeria's frontier basins. These activities include promoting

exploration in the frontier basins through publications, press releases, conferences, and road shows, as approved by the Commission. The fund will also be used to implement exploration and portfolio management strategies, which involve delineating acreages, awarding petroleum exploration licences, and funding exploration activities such as drilling and testing programs for prospects and leads in the frontier basins.

Additionally, the Regulations require part of the fund to be allocated to enhance information on petroleum resource base in the frontier basins through data acquisition, analysis, processing, interpretation, storage, archiving, and retrieval. Studies for the analysis and evaluation of unassigned acreages in the frontier basins will also be financed from the fund. Furthermore, the NNPC Limited's drilling and testing of prospects or leads identified from exploration activities under petroleum exploration licences issued by the Commission may be funded through the Frontier Exploration Fund. The utilisation of the fund will be governed by an annual Frontier Basin Exploration and Development Plan, and the Commission is obligated to ensure transparency and accountability in managing the fund's expenditures.

FRONTIER BASIN EXPLORATION AND DEVELOPMENT PLAN

The regulations mandate the Commission to establish an annual Frontier Basin Exploration and Development Plan (FBED Plan) aimed at guiding exploration activities in the frontier basins. The FBED Plan serves as a comprehensive strategy for managing exploration activities and resources in these areas. It should include details of the Commission's and portfolio management strategy

work programs submitted by NNPC Limited for exploration activities, and the proposed budget earmarked from the Frontier Exploration Fund for specific activities outlined in the plan. The FBED Plan should encompass various aspects, including promotional activities for exploration, strategies to improve information on petroleum resource base, analysis of unassigned acreages, and proposed drilling or testing operations by NNPC Limited on prospects and leads identified from exploration activities.

Under the regulations, the Commission is required to issue the FBED Plan by the 1st of January every year. The plan's implementation is crucial in directing exploration efforts in the frontier basins and ensuring that the allocated funds from the Escrow Account are utilised efficiently and effectively for exploration and development purposes. It provides a clear roadmap for exploration activities, ensures transparency in the allocation of funds, and facilitates strategic decision-making to maximise the potential of Nigeria's untapped oil and gas reserves in the frontier basins.

FRONTIER BASIN EXPLORATION AND DEVELOPMENT PLAN COMMITTEE

The Regulations require that a Frontier Basin Exploration and Development Plan Committee be established by the Commission. Its primary purpose is to oversee and facilitate the preparation and execution of the annual Frontier Basin Exploration and Development Plan (FBED Plan). The committee comprises high-ranking officials and experts, including the Commission's Chief Executive as the Chairman, Executive Commissioners responsible for various aspects of exploration and development,

the Commission's Secretary and Legal Adviser, and heads of relevant departments. The Commission's Chief Executive also reserves the discretion to designate other officers as members of the committee.

The regulations provide for quite a diverse array of functions for the committee. It shall be responsible for preparing the FBED Plan for approval by the Commission's Board, developing the financial proposals for funding the plan's activities, and preparing guidelines for engaging third-party contractors, excluding NNPC Limited, to carry out specific activities related to the Commission's functions in the frontier basins. The committee also reserves the imprimatur to implement the approved FBED Plan, monitor its progress, and provide quarterly reports to the Commission's Board on the plan's implementation, including details of expenditures. With this committee in place, the Commission would be able to effectively coordinate exploration activities in the frontier basins, ensure transparent use of funds from the Frontier Exploration Fund, and optimise the development of Nigeria's oil and gas assets in these strategic regions.

FRONTIER BASINS DATA CATALOGUE

The Commission is also obligated to establish a Frontier Basin Data Catalogue which is to be a crucial component of the exploration and development activities in the frontier basins. This data catalogue shall be designed to centralise and organise various types of geological and geophysical data related to the frontier basins. The catalogue is to comprise of existing geophysical and geological data, gravity data, electromagnetic data, Full Tension Gradiometer data, aeromagnetic data, non-conventional data, and any other data determined by the Commission

The data in this catalogue shall form the basis for decision-making and planning in exploration and development activities within the frontier basins.

Hosted in the National Data Repository, the Frontier Basin Data Catalogue ensures accessibility and ease of use for relevant stakeholders involved in exploration and development. It serves as a comprehensive record of surveys, logs, well reports, analysis, interpretations, studies, evaluations, and other relevant information derived from the data sets contained within the catalogue. Moreover, the data catalogue plays a crucial role in identifying prospects and leads in both licensed and unlicensed areas within the frontier basins. It helps prioritise these prospects and leads based on their prospectivity, thus guiding the Commission's strategy for granting petroleum exploration licences to prospective licensees. It is expected that by maintaining this valuable repository of data, the Commission should be primed to enhance its understanding of the frontier basins, make informed decisions, and attract investments to unlock the vast potential of Nigeria's oil and gas resources in these untapped regions.

INTERVENTION AND INCIDENT QUALIFICATION FOR THE FUND

The Commission, after proper evaluation, may request NNPC Limited to conduct drilling or testing operations in any prospects or leads in the frontier basins. This is subject to conditions like the absence of interest from the holder of a petroleum exploration licence or any third party, and the availability of sufficient funds in the Escrow Account to cover the estimated budget for such activities.

THIRD PARTY ENGAGEMENT

The regulations allow the Commission to engage third-party entities other than NNPC Limited to carry out exploration activities independently or in partnership with NNPC Limited. Payment to any third party for these activities shall only be made under a contract with the Commission.

AUDITING AND REPORTING REQUIREMENTS UNDER THE FUND

The regulations mandate the Commission to prepare an annual report of all activities and expenditures from the Frontier Exploration Fund. This report, accompanied by a statement of account from the Escrow Account Holder, is to be submitted to the National Assembly and relevant government bodies by March 31 of the succeeding year. The Commission is also mandated to publish this report on its website.

CONCLUSION

These Regulations and its provisions represent significant steps taken towards unlocking the vast potential of Nigeria's oil and gas resources in the untapped frontier basins. By creating a transparent and structured mechanism for funding exploration and development activities in these regions, the regulations aim to attract investments, encourage exploration, and enhance the nation's energy security. The emphasis on prudent financial management, reporting requirements, and the involvement of relevant stakeholders, including the Frontier Basin Exploration and Development Plan Committee, underscores the commitment to responsible and sustainable development in the Nigerian oil and gas market post-PIA. As the nation moves towards a more sustainable energy

future, these regulations provide a solid framework for leveraging Nigeria's abundant crude oil reserves and accelerating progress in the exploration and development of the frontier basins.



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