

# Marginal fields in Nigeria: recent developments

In November 2013 the Nigerian Department of Petroleum Resources ("DPR") announced the commencement of the 2013 Marginal Fields Licensing Round. This article considers the development of marginal fields in Nigeria and comments on the delayed bidding process.

## What is a marginal field?

In the broadest sense, a marginal field is an oil field that may not produce enough net income to make it worth developing at a given time and/or which has not been exploited for long, due to factors such as:

- the size of its reserves;
- lack of nearby infrastructure or profitable consumers;
- high development costs, fiscal levies and technological constraints;
- environmental concerns, political stability, access and remoteness; and
- the price and price stability of the produced gas/liquid.

However, should technical, local or economic conditions change, such fields can become commercial fields. The most important factor is the field's potential profitability, which in turn depends on the cost of developing it.

Marginal fields can require special field development planning and reservoir management strategies in order to yield acceptable returns on investment. This can have a material impact on development costs.

## Marginal fields in Nigeria

In Nigeria, reference to a marginal field is usually a reference to a field (which may or may not have the

technical characteristics of a marginal field) that has been discovered by major international oil companies ("IOCs") who have not developed the field for more than 10 years.

Under the Petroleum (Amendment) Act No. 23 of 1996, the President has

### Nigeria's marginal field bid rounds

The first marginal field bid round was in 2001, following which 17 licences were awarded to sole operators and seven awarded to joint-venture operators - a total of 24 licences awarded to 31 companies.

More recently, on 28 November 2013 the DPR issued guidelines on the process, stages and application requirements for companies interested in taking part in the 2013 Marginal Fields Licensing Round. This round will consist of 31 marginal fields (16 onshore and 15 shallow offshore).

Details of these fields should be available on the DPR website, although none were available at the time of writing.

the power to declare a field as a marginal field. This power applies where a discovery has been made but the field has been unattended for ten years from discovery.

IOCs have not developed these fields due to a combination of factors, including:

- having more important priorities on bigger fields (often offshore);
- the well-known problems (including community strife/action) of developing onshore assets in the Niger Delta.

## Eligibility

As part of the local content framework in Nigeria, eligibility to bid is only open to a registered Nigerian company:

- which is at least 51% owned by Nigerian citizens;
- where no single shareholder owns more than 25% of the shares (so there must be at least 4 shareholders, although the DPR has clarified that a foreign technical partner can hold up to 49% through a Nigerian registered company);
- which can demonstrate it has upstream oil and gas experience and has the technical capability to evaluate and develop the asset; and
- the memorandum and articles of which authorise the company to conduct oil and gas exploration and production activities.

These requirements create the opportunity for Nigerians to further participate in the lucrative oil and gas sectors and to partner with foreign companies.

### Develop or lose

Of the 27 marginal fields awarded by the government since 2003, only nine are producing. The rest are still planning production or seemingly dormant. Reasons for non-production at the 18 other fields are not entirely clear - it may be that some of these fields were unbankable in the first place.

This lack of activity resulted in the DPR instructing all holders of marginal fields (including the successful 2003 bid round indigenous companies) to develop the fields within the year or risk losing their operating licences. The DPR has also told investors bidding to acquire marginal fields in the current bid round to make sure that fields allocated to them are developed within two years or risk losing them.

This sends a clear message to those bidding on the current bid round that they need to have a clear development plan and the finances necessary to develop the fields they are bidding for. Failure could either mean their bid is unsuccessful or, if it is successful, their licence may be terminated for lack of development, with the loss of their investment made in bidding for and winning the licence. However, bearing in mind that the existing marginal field holders who have not developed their fields continue to hold their licences, it is not clear whether this threat will actually be carried out.

### Bankability

The key issue for any company wishing to bid for these assets is finance. Local risk capital appetite, although growing, remains low. Consequently, these companies are likely to have to go to the international markets for finance.

To be able to raise finance, the fields to be included in this bid round need to be bankable (in terms of oil reserves). The "bankability" of these fields remains to be seen, although according to NOG Intelligence bankability may not be an issue for this marginal bid round. In fact the issue is quite the opposite, with at least one prospective field said to have around 50 million barrels of oil in reserves - hardly marginal.

### Bid process

The bidding process commenced on 12 December 2013 and was scheduled to have specified stages occurring between specified dates, with winning bids due to be announced in April 2014.

However, since the process was announced in December and the initial road shows held the licensing round has become delayed, with no news from DPR on a revised timetable. According to NOG Intelligence, this may be partly due to disputes with at least two IOCs over the marginal fields to be included. It must be remembered that advances in extraction technology means that what was considered uneconomic 10 years ago might not be today. Could it be that some IOCs have discovered that there is significant money to be made from discreet direct sales of these "marginal" assets themselves? Perhaps this is one of the reasons for the disputes referred to above.

The timeframe announced is now unlikely to be achieved and a new timeframe will have to be put forward. However, the DPR seems (at least for now) to be silent not only on the impact of the delay but also for the reasons for it. In fact, there is very little information at all available on the DPR's website regarding the marginal field bid round.

Delays in bid processes are relatively common. However, the key thing with any bid process is to be as clear and transparent as possible regarding the reasons for the delay and the revised timetable. Without this, there is a real risk that investors (or at least serious investors) will lose interest and confidence in the bid process.

### Let black gold flow

The opportunity is clear in that these marginal fields can be turned into valuable production assets - in particular for junior oil and gas companies who have the requisite financial, technical and local capability.

Witness the fact that 9 marginal fields are in production and seem to be financially successful. For example, Waltersmith Petroman Oil Ltd (indigenous operator of the Ibigwe marginal field) successfully completed the first phase of the oil field development and is currently producing 4,000 barrels of oil per day (bpd). It expects to move higher to 7,000 bpd after a production optimisation process is concluded.

### The challenges

Assuming that the marginal field bid round runs its course, there are various challenges to anyone bidding for these assets. Whilst the key issues that all bidders need to address as a bid requirement are technical capability and finance (i.e. finance to bid, pay the signature fee and develop the field), there are a host of other issues that will also need to be addressed. These include issues such as:

- finding reliable and available equipment and services to enable the field to be developed;
- obtaining export capacity in the oil pipelines operated by the IOCs – especially where negotiating strength of a marginal field operator is not significant;
- dealing with pipeline losses and how these will be allocated to the operators who feed into the pipeline; and
- dealing with local communities and community issues.

This text is adapted from an article written by Raj Kulasingam and published in the April 2014 edition of Financial Nigeria magazine.

## Contacts



**Raj Kulasingam**

Consultant

T +44 20 7246 7596

raj.kulasingam@dentons.com



**Danielle Beggs**

Partner, Oil & Gas

T +44 20 7246 7442

danielle.beggs@dentons.com



**Jeremy Cohen**

Partner, Corporate

T +44 20 7246 7371

jeremy.cohen@dentons.com

Dentons UKMEA LLP

One Fleet Place

London EC4M 7WS

United Kingdom

DX 242T +44 20 7242 1212

F +44 20 7246 7777

dentons.com

© 2014 Dentons. This document is not designed to provide legal or other advice and you should not take, or refrain from taking, action based on its content. We are providing information to you on the basis you agree to keep it confidential. If you give us confidential information but do not instruct or retain us, we may act for another client on any matter to which that confidential information may be relevant. Attorney Advertising. Please see dentons.com for Legal Notices.

Dentons is a global legal practice providing client services worldwide through its member firms and affiliates. Dentons UKMEA LLP is a limited liability partnership registered in England and Wales under no. OC322045. It is authorised and regulated by the Solicitors Regulation Authority. A list of its members is open for inspection at its registered office: One Fleet Place, London EC4M 7WS. Any reference to a "partner" means a person who is a partner, member, consultant or employee with equivalent standing and qualifications in one of Dentons' affiliates.