

## NIGERIA COMMENCES THE MARGINAL FIELD BID ROUND 2020

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### INTRODUCTION

On June 1 2020, the Department of Petroleum Resources (**DPR**), on behalf of the Federal Government of Nigeria announced the commencement of the 2020 Marginal Field Bid Round Exercise (**Bid Round**). The Bid Round is open to indigenous companies and investors interested in participating in petroleum exploration and production in Nigeria.

The last bid exercise was conducted in 2003, which resulted in the award of 28 fields to 24 companies. The 2020 Bid Round has a total of 57 marginal fields located in land, swamp and shallow offshore terrains on offer.

The Bid Round will be conducted electronically and will include three (3) broad stages as follows:

- (a). Application and Pre-qualification: submission of application by interested parties, followed by pre-qualification and announcement of pre-qualified companies.
- (b). Technical and Commercial Evaluation: submission of detailed technical and commercial bids by pre-qualified companies and the evaluation of these bids.
- (c). Commercial Bid Conference: real-time online competitive auction and bidding and the announcement of winning bids.



## Objectives of the Bid Round

The Bid Round is premised on the broad objectives of growing production capacity through diversification of resources and inflow of investments; increasing oil and gas reserves through aggressive exploration and development effort; providing opportunity for portfolio rationalization; and promoting indigenous participation in oil and gas sector, amongst others.

## Applicable Fees

The cost for application and bidding per field is N5,000,000 (Five Million Naira (approx. US\$13,000) (which includes application fee – N2,000,000 and bid processing fee – N3,000,000) and US\$115,000 (One Hundred and Fifteen Thousand Dollars) (which includes fees for data prying - US\$15,000, data leasing -US\$25,000, Competent Person's Report – US\$50,000, and Filed Specific Report – US\$25,000). Signature bonuses will be as per applicant's winning bid.

It is important to note that according to the Central Bank of Nigeria (CBN), the current exchange rate of the US Dollars to Naira is N360.

## Criteria for Evaluation

Interested indigenous company would be required to submit their corporate information as well as proof of DPR registration. Bidders must demonstrate (i) managerial, technical and financial competence required to operate an asset in a business-like manner; (ii) credible plans for the operation of the field if awarded; (iii) ability to pay signature bonus; (iv) local content in terms of involvement of competent Nigerians in the Management as well as commitment to training and growth of indigenous capability, manpower and local input; and (v) consideration for local community/state participation, as well as commitment to social-economic development of the populace in the local community/state, to qualify for an award.

Pre-qualification will be open to all indigenous companies that are duly registered to carry out petroleum exploration and production operations in Nigeria. Companies which they or their promoters are indebted to government or who currently have oil and gas assets that are not being operated in a business-like manner will not be pre-qualified.

No more than five companies shall be pre-qualified per field and no single company will be pre-qualified for more than three (3) fields.

Two or more companies can decide to participate jointly in line with the guidelines and with the knowledge of the DPR.

## Evaluation and Selection

Submission requirements for field specific bids shall be made available after the pre-qualification exercise. Pre-qualified companies will be asked to submit field specific technical and commercial bid based on relevant field data made available by the leaseholder and/or DPR. Submissions should include details of proposed work programme as well as commercial proposals that show optimal yet economical concept and plans for development.

The Bid Round will be based on competitive participation by interested companies and entities. The application, together with requisite information and documentation will be screened by a Selection Committee consisting of three (3) representatives from DPR and one (1) representative each from NNPC and the leaseholder prior to making recommendations for the award of the fields to deserving bidders.

The recommendation will be sent to the Honourable Minister of Petroleum Resources and subsequently to the President and Commander in Chief of the Armed Forces of Nigeria.

Successful Applicants will thereafter be notified by the DPR.

An award is made on the basis that the Farmee shall operate on a sole risk basis but with the understanding that Government reserves the right to a participating interest at any time.

### Negotiation of Farm-out Agreement

Upon notification of successful applicants, the awardees shall promptly enter into negotiations regarding the terms and conditions of the Farm-out Agreement. The parties shall endeavour to reach an agreement within 90 days. However, in the event that the Parties fail to reach an agreement with respect to any of the terms and conditions, either party may notify DPR. In such cases, the Minister of Petroleum Resources shall adjudicate in respect of the relevant terms and conditions.

Where two or more companies are awarded one field, the co-ventures must enter into a Joint Operating Agreement (JOA) between them to signing the Farm out Agreement with the Leaseholder.



## Time Lines

The Schedule for the exercise is provided in the table below and may be subject to change when necessary.

S/N	Description of process	Duration	Date
1	Announcement of 2020 Marginal Field Bid Round	1 day	June 1 2020
2	Launch of bid round website and registration portal	1 day	June 1 2020
3	Registration of Applicants	2 weeks	June 1 - June14 2020
4	Evaluation of submission and preparation of report	2 weeks	June 15 - June 28 2020
5	Announcement of pre-qualified applicants and issuance of fields' teasers	1 day	June 28 2020
6	Data prying, leasing, purchase of reports	6 weeks	June 29 - August 9 2020
7	Payment of application and bid processing fee and submission of technical/commercial bid	6 weeks	June 29 - August 9 2020

Signing of Farm-out Agreements between existing leaseholders and awardees is expected to end no later than 31 December, 2020.

## Commercial considerations and commitments

- **Signature Bonus:** Signature Bonus are required to be paid within 90 days from the date of award of a Marginal field. If the required Signature Bonus is not paid within 90 days, a 30-day revocation notice shall be given, failing payment of which the award shall be revoked without further notice.
- **Over-riding Royalty:** The Farmor will earn an Over-riding Royalty interest from the Field.
- **Tariff for Transportation and/Processing:** The Farmor receives a negotiated amount (in dollars) per barrel as tariff from the Farmee. This may be in cash or a percentage of the net production.

## Key Terms in the farm-out Agreement

The Guidelines provide indicative terms of the Farm-out Agreement for Applicants' information and guidance. The Farm-out Agreement is expected to contain, at the minimum:

- **Indemnity provisions:** to protect leaseholders from fall outs of the farmee's operations, including environmental, community and abandonment. Guarantees to back these indemnities may be required.
- **Farm-Out Area:** The Farm-out area should be clearly defined in the Farm-out agreement and expressly provide for the Farmee to be fully responsible for the Farm-Out area.
- **Field Data:** that all previous data acquired in the field will be handed over to the Farmee.
- **Appraisal and Deep Drilling Rights:** that new pools discovered as a result of new work programme and technology shall be credited to the Farmee. Terms and conditions for discovery of deeper pools found should be agreed.



- **Abandonment:** how farmee will bear and provide its equitable share of abandonment costs.
- **Straddled Fields/Reservoirs:** mechanism for the operation of straddled fields and reservoirs under the same agreement entered with the initial leaseholder.
- **Basis of Operation:** that farmee shall bear the sole risk of operations, with the Government reserves a back-in right.
- **Effectiveness:** the Farm-Out Agreement will only be effective upon payment of all bonuses and fees and approval by the President.
- **Community Development/Relationship:** that the Farmee be responsible for community development activities as well as managing interfaces and relationships in the farm-out area.

## Encumbrance

Farmee shall not that encumber the lease or the Farm-out Area under any circumstances.

## Termination and renewal

If after 5 years of consent to the farmout agreement, a farmee fails to show verifiable evidence of efforts made to progress work on the fields according to the approved plan and the Department of Petroleum Resources can withdraw consent. However, where Farmee decides to terminate, it must be 90 (Ninety) days written notice to the DPR and pay prescribed fee.

A farmee shall be entitled to a renewal of the farm-out if it shows verifiable evidence of efforts made to progress work on the fields according to the approved plan with 5 years of consent to the farmout agreement.

## Conclusion

The Bid Round is a welcome development and represents an opportunity to increase indigenous participation in petroleum upstream activities. It is also anticipated that the additional production from these stranded fields will boost the nation's daily crude production output and government revenue.

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