Topical Market Insights & Intelligence

Nigerian Marginal Field Bid Round 2020

June 2020

2020 Marginal Field Bid Round

Background

- The Department of Petroleum Resources ("DPR") have embarked on a Marginal Field Bid Round against a backdrop of the collapse in oil prices and the COVID-19 pandemic. At a time when oil companies are significantly cutting CAPEX budgets, delaying or shelving development projects and the availability of funding is severely curtailed, one has to question the DPR's logic. That said, there is a high degree of confidence in Abuja that there will be significant interest from indigenous E&P companies and that several international E&P companies will participate

- The first Marginal Field Bid Round was held in 2003, with ~40 indigenous E&P companies participating, although many of them were merely shell companies with no assets, limited technical expertise or capital. With few exceptions (e.g. Niger Delta E&P, Oando, WalterSmith) indigenous companies who were awarded Marginal Fields, entered into technical and financial services agreements with international E&P companies (e.g. Afren, Mart Resources, Seven Energy). The outcome was that 24 Marginal Fields were awarded to 32 indigenous E&P companies

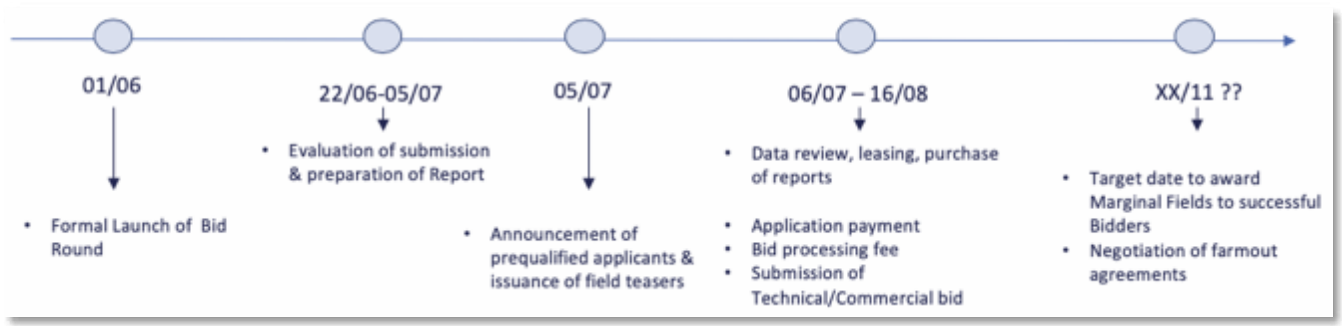
- Since 2003 there have been several attempts to conduct additional Marginal Field licencing rounds without success. In 2013, a licencing round was formally launched but subsequently withdrawn due to political interference and the 2014 presidential elections

- Since 2010 there has been a concerted effort by the DPR to increase local ownership of oil & gas assets. In all of the 2010 – 2015 IOC asset divestments, indigenous E&P companies were the winning bidders, either on a stand-alone basis (e.g. Seplat, Neconde, FIRST E&P, Aiteo, Eroton E&P) or in partnership with an international E&P company (e.g. Shoreline – Heritage, Elcrest – Eland Oil & Gas)

- There are currently ~50 indigenous E&P companies operating ~30% of daily production. Most of these companies comprise of management teams that have built their careers in the IOCs, operate fields and have the requisite technical, commercial, financial management and corporate governance structures to enable them to attract foreign capital – debt and equity and/or international partners

2020 Marginal Field Bid Round

Timeline



- The Bid Round was formally launched on the 1st of June 2020 and is open to indigenous E&P companies, as well as consortia which could include international E&P companies, on the condition that indigenous E&P companies own a majority in the bid vehicle as Marginal Fields can only be awarded to indigenous companies by law

- 57 Marginal Fields within IOC operated OMLs have been identified by the DPR and an economic evaluation of the fields has been conducted by the National Data Depository. The DPR predict that revenue from the Bid Round could total US$520 million in signature bonuses and data related fees in addition to ₦1 billion in application and processing fees

- The Marginal Fields comprise a mix of onshore, swamp and shallow offshore fields, of which 20 are located within SPDC operated OMLs, 12 in Chevron OMLs, 11 in ExxonMobil OMLs, 5 in Total OMLs and 2 in NAOC OMLs (cf: Slide 8)

- In addition, the DPR are including several of the Marginal Fields that were revoked in April 2020 including the Ekeh, Otiti, Dawes Island and Ororo fields. It should be noted that the DPR overlooked that the latter two fields are both onstream. However, the operators have now been granted an injunction against the DPR, preventing the fields from being included. Hence currently their inclusion is uncertain

- Based on a preliminary review of the public NNS data available, the fields range in size from ~10MM bbl/15Bcf to ~60MM bbl/506Bcf

DPR objectives of the Bid Round:

- To grow production capacity, especially from condensate rich fields which fall outside of Nigeria's OPEC quota
- To increase the oil & gas reserves base through aggressive exploration and development activities
- To provide an opportunity for portfolio rationalisation
- To promote increased indigenous participation in the oil & gas sector
- To promote common usage of infrastructure assets and facilities

The DPR definition of Marginal Fields:

- Fields not considered by the OML operator for development due to marginal economics
- Fields with at least one exploration well drilled and an oil or gas discovery, which for at least 10 years, have had no follow-up appraisal or development activity
- Fields with crude oil characteristics different from current streams, which cannot be produced through conventional methods or current technology
- Fields with high gas and low oil reserves
- Fields that have been abandoned by the leaseholders for more than three years
- Fields that the present OML operator may consider for farm-out as part of a portfolio rationalisation programme

2020 Marginal Field Bid Round

Bid Process & Fees

- The Bid Process will be managed by the DPR. Representatives of NNPC and the current OML operators will also be involved in the pre-qualification and technical and commercial evaluation process
- The Bid Process includes the following steps and is projected to be concluded within 6 months:

Bid Process Steps
Submission of application by interested parties
Pre-qualification of interested companies
Announcement of pre-qualified companies
Submission of detailed technical and commercial bids by pre-qualified companies
Evaluation of technical and commercial bids
Announcement of winning bids
Negotiation of a farm-out agreement with the IOC operator of the OML

DPR proposed Bid Process Fees

- The DPR has not specified the Signature Bonus payable per field as this will be subject to negotiation
- Upon award of a Marginal Field the acquirer will negotiate a farm-out agreement with the operator and agree an equitable fee. In addition, other commercial considerations to be negotiated will include:
  - Over-riding royalty – the farmor will earn an over-riding royalty interest
  - Tariff for transportation and/processing – negotiated as either a $/boe or payment in kind as a percentage of production

Fee Type	Proposed Fee
Application fee:	₦2 million per field
Bid Processing fee:	₦3 million per field
Data fee:	US$15,000.00
Data leasing fee:	US$25,000.00
CPR:	US$50,000.00
Field specific report:	US$25,000.00

2020 Marginal Field Bid Round

Challenges

Challenges with the Marginal Field Bid Round include:

- Prevailing low oil price environment given average field OPEX in Nigeria is ~US$25/bbl
- Economic impact of COVID-19
- Fiscal terms applying to Marginal Fields in a low oil price environment and in particular the 2019 Finance Act repeal of the withholding tax exemption on dividends paid out of petroleum profits
- Legal status of the Marginal Field owner within the existing OML which is effectively a sub-lease not a direct ownership
- Limited international interest in investing in Nigeria
- Availability of international or local bank funding for Marginal Field development commitments
- Financial capabilities of many indigenous E&P companies are limited due to high levels of debt
- Limited technical data being made available by the IOCs on several of the Marginal Fields being offered
- Access to pipeline infrastructure and evacuation routes, especially for the shallow water fields being offered
- The allocation of oil or gas discoveries that either straddle or are in deeper zones than the Marginal Field boundary
- Legal ruling preventing the DPR from including certain recently revoked Marginal Fields that were awarded in 2003
- Aggressive DPR timeline
- DPR's expectation of significant signature bonuses - in the 2003 licencing round the signature bonuses were $150,000 per Marginal Field

Potential Participation

Some of the leading indigenous E&P companies expected to participate include:

Indigenous E&P Companies	Existing Assets	Operator	Likely Interest	Interest in a Partner
Amni International	OMLs 112, 117, 52	Yes	High	Marginal
Eroton E&P	OML 18	Yes	Medium	Yes
FIRST E&P	OMLs 34, 83, 85, 71,72	Yes	High	Marginal
Frontier Oil	OML 13	Yes	High	Yes
Midwestern Oil & Gas	OML 56	Yes	High	Yes
Neconde Energy	OML 42	Yes	Medium	Marginal
Sahara Energy	OML 40	Yes	High	No
Seplat	OMLs 4, 38, 41, 56, 53	Yes	High	No
Sapetro	OML 130	No	High	Marginal
Oriental Energy Reources	OML 67	Yes	High	Yes
SunTrust Oil	OML 56	No	High	Yes
Petrolon Energy	OML 54	No	High	Yes
Shoreline	OML 30	Yes	High	Marginal
Vertex Energy	OML 26	No	High	Marginal
WalterSmith	OMLs 16, 34	Yes	High	No
Niger Delta E&P	OMLs 53, 54, 34	Yes	Medium	No

Potential Participation

- It is expected that there will be minimal international E&P interest for a variety of factors including:

  - Limited current interest in Nigerian oil & gas
  - Requirement to partner with an indigenous E&P company
  - Prevailing macro-economic climate and low oil prices
  - Limited reserve/resource upside in a number of the Marginal Fields on offer
  - 5-year timeframe to appraise/develop and bring the Marginal Field onstream

- A short list of potentially interested companies includes:

International E&P Companies	Existing Nigerian Interests	Likely Interest
Africa Oil	Yes	High
ADM Energy	Yes	High
Boru Energy	No	Medium
COPI	Yes	Medium
PetroNor E&P	Yes	High
San Leon Energy	Yes	High
Savannah Energy	Yes	High
Lekoil	Yes	High
Zenith Energy	No	Medium
Midway Resources	No	High

List of Marginal Fields

The identified Marginal Fields are shown in the following tables:

Operator	OML	Field	Onshore/Offshore /Swamp
SPDC	11	Obuzo	Onshore
SPDC	11	Uzoaku	Onshore
SPDC	11	Baniele	Onshore
SPDC	11	Ofemini	Onshore
SPDC	11	Hughes Channel	Onshore
SPDC	11	Banghan	Onshore
SPDC	22	Emohua	Onshore
SPDC	23	Egbolom	Onshore
SPDC	33	Igbomotoru N	Onshore
SPDC	43	Benin Estuary	Onshore/Offshore
SPDC	46	Korolei	Swamp
SPDC	46	Osuopele SW	Swamp
SPDC	40	Ugbo	Onshore
SPDC	40	Abiala	Onshore
SPDC	42	Irigbo	Onshore
SPDC	30	Okpolo	Onshore
SPDC	42	Atamba	Onshore
SPDC	42	Ogbanabou	Onshore
SPDC	25	Olua	Onshore
SPDC	29	Kugbo West	Onshore
Chevron	49	Olure	Offshore
Chevron	49	Bime	Offshore
Chevron	49	Omofejo	Offshore
Chevron	53	Alaoma	Onshore
Chevron	53	Iheoma	Onshore
Chevron	89	Obira	Offshore
Chevron	89	Kudo	Offshore
Chevron	95	Oloye	Offshore
Chevron	95	Azama	Offshore
Chevron	95	Ruta	Offshore
Chevron	95	Meta	Offshore
Chevron	95	Shango	Offshore

Operator	OML	Field	Onshore/Offshore /Swamp
NAOC	62	Odimodi	Swamp
NAOC	63	Ajaketon	Swamp
ExxonMobil	67	Udibe	Offshore
ExxonMobil	67	Ekpat	Offshore
ExxonMobil	67	Amaniba	Offshore
ExxonMobil	67	Edi	Offshore
ExxonMobil	67	Ede	Offshore
ExxonMobil	67	Ndibe	Offshore
ExxonMobil	70	Ekepkep	Offshore
ExxonMobil	70	Nkuku	Offshore
ExxonMobil	70	Iborn	Offshore
ExxonMobil	70	Udara	Offshore
ExxonMobil	104	Utine	Offshore
Total	100	Usoro	Offshore
Total	100	Ikong	Offshore
Total	100	Ibiom	Offshore
Total	102	Akamba Mfoniso	Offshore
Total	102	Asasa West	Offshore

Source: DPR

2020 Marginal Field Bid Round

Conclusions

Opportunity in current oil price environment

- In a low oil price environnment Marginal Fields can provide a cost effective entry point for companies looking to increase their asset portfolios or for new entrants into Nigeria

Marginal Fields

- Many of the Marginal Fields on offer have material oil, condensate and gas reserves and are located within OMLs that provide established infrastructure and evacuation options
- A number of the Marginal Fields, particularly those in shallow water offshore, have undeveloped gas reserves and whilst infrastructure could be a challenge, the government's push to utilise and commercialise gas for domestic use, coupled with a number of new gas infrastructure projects, improve the attractiveness of gas assets

Credible Indigenous E&P partners

- Given the technical and commercial calibre of many of the indigenous E&P companies, international companies interested in participating in the Bid Round, have opportunites of forming bid SVPs with credible players

DPR Bid Round objectives

- The DPR's timing and revenue objectives for the Bid Round are optimistic and may fall short. However based on preliminary market soundings, it is clear that there will be significant local interest in participating and that there will be competitive bids for a number of the larger Marginal Fields

Conclusions

Funding

- Funding for the signature bonuses may be challenging for a number of companies and given the 5-year timeline being imposed by the DPR to bring fields into production, securing development capital in the prevailing market will be likely to require innovative funding solutions and/or participation by oil trading companies and non-traditional sources of finance

Overall Conclusion

- Overall, despite the likely delays in completing the Bid Round due to restrictions imposed by COVID-19, it is expected that a number of the Marginal Fields being offered will be awarded and that this will provide further stimulus to the increased ownership of oil and gas assets by indigenous companies and to the development of fields that have been previously neglected by the IOCs

Further information…

To discuss the Marginal Field Bid Round or opportunites in the Nigerian oil & gas sector please contact:

Michael E. Humphries
Director

Email: mhumphries@redcliffenergy.com
Mobile: +44 (0) 7519 192 649
www.redcliffenergy.com