



A REVIEW OF THE GUIDELINES ON INTEGRATED PETROLEUM OPERATIONS IN NIGERIA

Background

In a bid to resolve the issues arising from the overlap of the regulatory functions of the Nigerian Upstream Petroleum Regulatory Commission (“**Commission**”) and Nigerian Midstream and Downstream Petroleum Regulatory Authority (“**Authority**”), specifically regarding crude export terminal operations and other integrated facilities, the President of the Federal Republic of Nigeria and Minister of Petroleum Resources, Bola Ahmed Tinubu (the “**President**”), on June 26, 2023, issued a directive (“**Presidential Directive**”) to delineate the responsibilities of Commission and Authority. The Presidential Directive expressly provides that crude export terminals are within the regulatory domain of the Commission. It further provides that integrated upstream and midstream petroleum operations are to be considered as upstream petroleum operations, thus under the purview of the Commission, and the Commission shall solely exercise its discretion in determining what may qualify as integrated facilities. The Presidential Directive also requires the Commission to establish clear guidelines and criteria to ascertain the integration status of facilities and ensure consistent application of these criteria.

Following the Presidential Directive, the Commission issued the Guidelines on Classification of Integrated Upstream and Midstream Petroleum Operations, dated December 6, 2023 (“**Guidelines**”) to set out the criteria for classifying a production operation as integrated, and the requirements for the development, operation and administration of integrated facilities.

In this publication, we have provided a high-level review of the Guidelines and highlighted practical steps to be noted by operators/licensees in respect of integrated facilities.

Meaning of “Integrated Facility”

The Guidelines define an integrated facility as a combination of facilities interlinked by operations and/or shared utilities, component(s) of which may include midstream facilities and **may be** covered by a single field development plan. This definition of integrated facility is consistent with Section 8 (d) of the Petroleum Industry Act, 2021 (**PIA**), which provides that petroleum operations may be considered integrated where there is a joint use of utilities used exclusively for the upstream and midstream operations.

The Guidelines are expressly stated to be applicable to all facilities that are components of upstream operations such as floating production storage and offloading facilities, floating storage and offloading facilities, land terminal facilities, production platforms, flow stations, drilling/well head platforms, early production facilities and produced gas flare elimination facilities.

Criteria for Classification of Integrated Operations

Beyond the definition set out above, the Guidelines require that facilities comprised in a production operation must satisfy one or more of the following criteria (“**Classification Criteria**”) to be considered as integrated:

- (a) the operation is configured as a floating production storage and offloading facility;
- (b) due to various factors such as, design, configuration, logistics, economic or environmental reasons, only two-phase separation is conducted at flow stations while the remaining partially processed production stream from various flow stations is centrally separated at a storage/export terminal, serving as the production measurement point;
- (c) the component facilities (which may include midstream facilities) are covered by a single approved field development plan;
- (d) the operations philosophy is designed for allocation measurement to be conducted at flow stations while the associated terminal serves as the fiscal measurement point;
- (e) the operation is a configuration that involves extracting lean gas from natural gas for sales, internal utilization or re-injection to reservoirs, while the residual natural gas is sold separately or converted to natural gas liquids (**NGLs**) and a part or all of the produced condensate from the operation is blended with produced crude oil prior to production measurement;
- (f) the operation involves a gas plant with natural gas feed from – (i) the production stream directly from non-associated gas (**NAG**) wells; or (ii) NAG wells and flow stations that separate associated gas from crude oil, and/or there is joint use of measurement apparatus for both production, extraction, injection or lifting measurement;

- (g) in the case of (e) and (f) above, the value of the produced natural gas for royalty purposes is determined based on the fiscalisation at the gas plant or mass balance of measurements of all stages of the operations including the point of sales or custody transfer;
- (h) the facilities are linked by pipelines/gathering lines and share the use of storage tanks; or
- (i) there is joint use of utilities such as controls and instrumentations, fuel gas, power, fibre cable link, firewater, etc., used exclusively for the upstream and midstream petroleum operations.

Procedure for Designation of Facilities as Integrated

New Facility Development

A licensee/operator that intends to develop a facility or group of facilities within or in connection with a field or lease that meet the Classification Criteria is required to adhere to the engineering milestone approval process under the Commission's Guidelines for the Design, Construction and Operation of Oil and Gas Production Facilities in Nigeria, 2023. As part of the concept design approval under the said guidelines, the licensee/operator is required to apply to the Commission in writing for the development to be treated as integrated. The application must be accompanied with highlights of the proposed concept that align with the above Classification Criteria.

Where the Commission determines that the Classification Criteria has been met, the Commission must proceed to administer the development as a single development project irrespective of the number of facilities on the condition that the development of all the facilities are interdependent and carried out concurrently.

The Guidelines further provide that where the holder of a petroleum prospecting licence declares a commercial discovery and its proposed development requires construction of integrated facilities, the holder may submit its development plan as a single integrated project to the Commission for its consideration and approval, provided that the Classification Criteria has been met. It is noted that the Guidelines are silent as to whether or not this provision would extend to the holder of an oil prospecting licence that has not converted to a petroleum prospecting licence under the PIA.

Facilities in Operation

With respect to facilities in operation, the Commission may on its own, and on the basis of the relevant field development plan or existing operational configuration, determine that a group of facilities meet the Classification Criteria and therefore qualify as an integrated operation. Where the Commission make this determination, it shall in writing, designate such facilities as an integrated.

The Guidelines also permit a licensee or operator to apply to the Commission for its facilities to be designated as an integrated. Such application must be made in writing and accompanied with any justification that establishes alignment with the Classification Criteria. Where the application is determined to be satisfactory, the Commission shall proceed to administer the facilities as an integrated operation.

Administration of Integrated Operations

The Guidelines affirms the Commission’s regulatory function and oversight over all integrated operations determined/approved by the Commission, including the issuance of all licenses, permits, consents, approvals and authorisations related to the development and operation of an integrated facilities in line with the relevant regulations and guidelines, as well as the administration of statutory fees regarding such integrated operations. The foregoing suggests that the Commission is expected to administer the regulations and guidelines issued by the Authority in respect of the midstream components of integrated facilities.

Conclusion

The Guidelines provide the much-needed clarity on the type of operations that may be determined as integrated and what the Commission should consider in making such a determination. It is expected that this regulatory intervention, which helps to better delineate the regulatory purview of the Commission and the Authority, would result in better cost and time efficiency for operators with integrated facilities. However, more clarity is required on the regulatory instruments that would be administered by the Commission in respect of the midstream components of integrated facilities.

We hope you have found our review of the Guidelines useful, and we are available to provide advice on any aspects of this subject matter.

Disclaimer: This publication is not a legal opinion and is not designed to provide legal advice. Should you require legal advice on how the Guidelines impact your business, do not hesitate to contact us.

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