



# THE OIL & GAS YEAR

The Who's Who of the Global Energy Industry

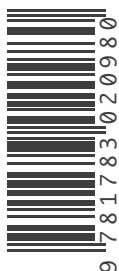
ARTICLES | INTERVIEWS | VIEWPOINTS | MARKET ANALYSIS | RESOURCES | PROJECTS | MAPS | INVESTOR SPOTLIGHTS



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## Plug the gaps

Elisabeth PROUST  
Managing Director  
TOTAL UPSTREAM COMPANIES IN NIGERIA

## New law, fresh opportunities

George OSAHON  
Director  
DEPARTMENT OF PETROLEUM RESOURCES

## Strategic Roundtable



A close-up photograph of a woman wearing a white hard hat, safety glasses, and a blue Baker Hughes uniform. She is focused on working with a complex piece of industrial machinery, specifically handling a bundle of wires and components. The background features a wall with a geometric, low-poly pattern in shades of brown and tan. A yellow horizontal bar is visible at the top left of the image.

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28

## Policy & Economy

The March 2015 presidential election of Muhammadu Buhari brings new hope to Nigeria's oil and gas industry; however, the country must continue to work towards stabilising the domestic industry. Recent measures such as the Nigerian Content Act of 2010, subsidy reforms and the soon-expected passing of the country's Petroleum Industry Bill are all signs of further progress.



42

## Nigerian Content

In 2010, the Nigerian government made a concerted effort to develop local content with the passing of the Nigerian Content Act. The industry has since seen the share of domestic companies' assets and activities grow significantly. The drive for increased local content has positively impacted the oil and gas industry and the local economy, bringing about \$5 billion in investments, according to the Nigerian Content Development and Monitoring Board.

### 10 THE YEAR IN REVIEW

- 11 INTERVIEW: George Osahon, Department of Petroleum Resources
- 13 THE YEAR'S AWARDS
- 14 NIGERIA AT A GLANCE
- 15 THE INVESTORS INDEX
- 16 THE YEAR IN ENERGY

### 18 THE STRATEGIC ROUNDTABLE

- 19 STRATEGIC ROUNDTABLE PARTICIPANTS
- 20 ROUNDTABLE SESSION
- 26 RESOURCE: Foreign direct investment inflows in Africa by region, 2010-2013
- 27 STRATEGIC ROUNDTABLE SURVEY RESULTS

### 28 POLICY & ECONOMY

- 29 ARTICLE: *A country in transition*. Following the election of Muhammadu Buhari, new hope for growth and security has been bought to Nigeria's oil and gas industry
- 29 IN THE BANK: *The Nigerian government's oil price budget assumption over time, 2007-2015*
- 30 IN RESERVE: *Regional oil reserves-to-production ratios*
- 31 INTERVIEW: Oscar Onyema, Nigerian Stock Exchange
- 32 VIEWPOINT: *Eyes open*. Rolake Akinkugbe, FBN Capital FOLDOUT RESOURCE: *Infographic*
- 33 INTERVIEW: Hakeem Adedeji, First City Monument Bank
- 34 MARKET ANALYSIS: *Power to the private sector*. Benjamin Dikki, Bureau of Public Enterprises
- 34 IN POWER: *Nigeria's average utilised power per month since privatisation in 2013*
- 35 MAP: *Power generation and distribution in Nigeria*
- 36 MARKET ANALYSIS: *Local generator*. Emeka Ene, Petroleum Technology Association of Nigeria
- 37 VIEWPOINT: *Get it together*. Sola Adepetun, Adepetun Caxton-Martins Agbor & Segun
- 38 INTERVIEW: Bayo Olowoshile, Petroleum and Natural Gas Senior Staff Association
- 40 ARTICLE: *Consent is of the essence*. Unclear legal and regulatory requirements are obstacles to acquiring upstream assets
- 41 MAP: *Annual revenue of Nigerian states*

### 42 NIGERIAN CONTENT

- 43 ARTICLE: *An earnest effort*. The Nigerian Content Act is beginning to bring returns to the domestic industry
- 46 INTERVIEW: Ernest Nwapa, NCDMB
- 47 PROJECT HIGHLIGHT: *Egina deep offshore development*
- 48 MARKET ANALYSIS: *Time to clean up*. Dozie Mbanefo, DLK Oil and Gas
- 49 COMPANY PROFILE: *Nimasa*
- 49 IN THE WATER: *Number and classification of Nigerian vessels, 2014*
- 50 VIEWPOINT: *Local benefits for local players*. Kayode Thomas, Bell Oil & Gas

- 52 INTERVIEW: Stanford Tassie, Tilone Subsea
- 53 COMMENT: *Money talks*. Nigerian bank lending increases, especially in funding domestic purchases of divested assets
- 54 COMPANY PROFILE: *Nadabo Energy*
- 54 IN COMPARISON: *Projected subsea hardware expenditure in selected regions, 2014-2018*
- 55 COMMENT: *Build it and they will come*. Oil and gas-related vessels operating locally are increasingly being built in Nigeria
- 56 COMPANY PROFILE: *PEM Offshore*
- 57 PROJECT HIGHLIGHT: *Technova Line Pipe Mill and Coating Facility*
- 58 COMPANY PROFILE: *PFL Engineering*
- 58 IN USE: *Gas utilisation in Nigeria by type, 2013*

### 60 EXPLORATION & PRODUCTION: INTERNATIONAL

- 61 ARTICLE: *The international edge offshore*. International companies are shifting towards offshore development
- 62 IN EXPORTS: *Nigeria's exports of LNG to global markets, 2013*
- 63 INTERVIEW: Elisabeth Proust, Total Upstream Companies in Nigeria
- 64 IN DESTINATION: *Crude oil export destination by region*
- 66 PROJECT HIGHLIGHT: *OML 58 Upgrade*
- 67 COMMENT: *Up and down*. If oil prices remain low, Bonny light will continue to trade low, causing deficits for the oil-reliant country
- 68 PROJECT HIGHLIGHT: *Agbami field development*
- 70 PROJECT HIGHLIGHT: *Erha North phase two*
- 70 IN PRODUCTION: *ExxonMobil and Esso's hydrocarbons production in Nigeria, 2009-2013*
- 71 IN DISCUSSION: Goke Adeniyi and Olakunle Aderibigbe, Seaseis Geophysical

### 72 EXPLORATION & PRODUCTION: DOMESTIC

- 73 ARTICLE: *The keys to the kingdom*. Domestic companies have made great strides in the oil and gas industry
- 73 IN WELLS: *Number and type of wells drilled by the top five companies in Nigeria, 2013*
- 74 IN DRILLING: *Top five domestic companies in Nigeria by drilling, 2013*
- 75 INTERVIEW: Ambrosie Bryant Chukwueloka Orijako, Seplat
- 75 IN COMPARISON: *Natural gas reserves-to-production ratio in selected African countries, 2013*
- 76 INTERVIEW: Tunde J. Afolabi, Amni International Petroleum Development Company
- 76 IN PRODUCTION: *Nigeria's annual production of crude, 2004-2013*
- 77 MAP: *Divestment purchases by local companies*
- 78 INTERVIEW: Ladi Bada, Shoreline Natural Resources FOLDOUT MAP: *Oil and gas production*
- 80 GEOLOGY REPORT: *Basin and play prospectivity and future reserves growth in Nigeria*
- 82 INTERVIEW: Daisy Danjuma, South Atlantic Petroleum
- 84 COMPANY PROFILE: *Midwestern Oil & Gas*
- 86 INTERVIEW: Leslie Blair, Elcrest
- 87 MAP: *Concessions by operator type*
- 87 IN OPERATION: *Type of licences obtained and wells drilled by oil companies in Nigeria*
- 88 COMPANY PROFILE: *Erin Energy*



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### Exploration & Production: International

Several international oil companies have suffered significant losses in Nigeria due to oil theft, vandalism and infrastructure gaps. Global companies have begun divesting from their onshore assets and moving into the country's offshore concessions, where opportunities for profit abound and the potential for theft and sabotage is less severe.



90

### Exploration & Production: Marginal fields

As international oil companies move offshore, domestic firms are buying up divested onshore assets, including marginal fields. Though more Nigerian companies are now active in the local oil and gas industry, only a small percentage of the marginal fields are producing due to financial and technical hurdles. The increase of local capacity is central to Nigerian firms' success in these fields.



100

### The Year's Focus: Indigenous Companies

Nigeria's indigenous oil and gas companies are taking advantage of assets sold off by international oil companies and the country's concerted push to develop local content. While encountering challenges in garnering sufficient funding for exploration and production, many companies benefit from experience gained in other areas of Nigeria's oil and gas value chain.

#### 90 EXPLORATION & PRODUCTION: MARGINAL FIELDS

- 91 **ARTICLE:** *Marginals at the centre.* Domestic companies are facing tough challenges as they try to make production from Nigeria's marginal fields viable
- 92 **IN PRODUCTION:** *Daily production of Nigeria's marginal fields*
- 93 **MAP:** *Nigeria's marginal fields*
- 94 **INTERVIEW:** Felix Amieyeforin, **Energia**
- 94 **IN PRODUCTION:** *Nigeria's natural gas flaring, utilisation and production, 2004-2013*
- 95 **COMMENT:** *Transmission mission.* While many Nigerians have been left in the dark, the government has plans to increase electricity generation and transmission capacity
- 96 **VIEWPOINT:** *Money time.* Olalekan Akinyanmi, **Lekoil**
- 97 **MARKET ANALYSIS:** *Up the stakes.* Dada Thomas, **Frontier Oil**
- 98 **MARKET ANALYSIS:** *A small-scale tale.* Chambers O. Oyibo, **Prime Energy Resources**
- 99 **COMMENT:** *Sold to the next highest bidder.* A dispute over oil mining licence obligations leads to legal trouble
- 99 **INVESTOR SPOTLIGHTS:** **Mart Resources, Movido Exploration and Production**

#### 100 THE YEAR'S FOCUS: INDIGENOUS COMPANIES

- 101 **ARTICLE:** *The rise of giants.* Domestic companies are taking advantage of assets left behind by foreign operators and using their experience to grow into local giants
- 102 **INTERVIEW:** Wale Tinubu, **Oando**
- 103 **COMPANY PROFILE:** **Century Group**
- 105 **PULLOUT MAP:** *Nigerian Oil Mining and Prospecting Licences*
- 106 **COMPANY PROFILE:** **Aiteo Group**
- 107 **INTERVIEW:** Tola Talabi, **Elektron Petroleum Energy and Mining**
- 108 **COMPANY PROFILE:** **Niger Delta Exploration & Production**
- 108 **IN USE:** *Refining capacity and utilisation, 2004-2013*
- 109 **RESOURCE:** *Nigeria's energy value chain*
- 110 **PROJECT HIGHLIGHT:** *Offshore Aje field development*

#### 112 OILFIELD SERVICES

- 113 **ARTICLE:** *The New Wave.* Oilfield services move offshore and see greater participation from local companies
- 114 **IN WELLS:** *Drilling in Nigeria by well type, 2009-2013*
- 115 **INTERVIEW:** Eke U. Eke, **Schlumberger**
- 116 **INTERVIEW:** Ayo Shote, **Baker Hughes**
- 117 **MARKET ANALYSIS:** *Effective technology.* Femi D. Thomas, **Weatherford Nigeria**
- 118 **INTERVIEW:** Henry Oki, **Halliburton**
- 119 **MARKET ANALYSIS:** *An alternative approach.* Emeka Ene, **Oil Data**
- 120 **VIEWPOINT:** *Legacy of big oil.* Dimeji Bassir, **Ofserv**
- 121 **COMMENT:** *Flaring misconduct.* Gas flaring in Nigeria remains a common practice, as regulating it is difficult
- 122 **INTERVIEW:** Wole Ogunsanya, **Geoplex Drilltec**
- 124 **INTERVIEW:** Dapo Oshinusi, **Mansfield Energy**
- 125 **MARKET ANALYSIS:** *Technology drive.* Nosa Egharevba, **Onesubsea**
- 126 **INVESTOR SPOTLIGHTS:** **Oilflow Services, Petrrix Oil & Gas**

- 126 **COMMENT:** *Costly spills.* The toll of oil spills
- 127 **COMMENT:** *Structural adjustments.* Joint ventures are becoming increasingly rare as players in Nigeria have begun to prefer production-sharing contracts
- 128 **INTERVIEW:** Rotimi Ibadapo and Dick Verhaagen, **PIDWAL**
- 129 **COMMENT:** *Ride the wave.* More rigs lay idle in Nigeria as the price of oil remains low

#### 130 ENGINEERING & CONSTRUCTION

- 131 **ARTICLE:** *In-house fabrication.* Local content initiatives boost domestic manufacturing and fabrication
- 132 **IN SPENDING:** *Projected offshore upstream expenditures by region*
- 133 **INTERVIEW:** Marc Girodroux, **Nigerstar 7**
- 134 **COMPANY PROFILE:** **DeltaAfrik Engineering**
- 136 **INTERVIEW:** Stephen Jackson, **Makon Group**
- 137 **INTERVIEW:** George Ebu, **Global Oecon Engineers Nigeria**
- 137 **IN RANKING:** *Ease of doing business among selected western African states in 2015*
- 138 **VIEWPOINT:** *Profitable work.* Chijioko Igwe, **Deltalift Resources**
- 139 **COMMENT:** *A price exceeding appetite.* Developments at the Bonga South West Aparo field
- 140 **INTERVIEW:** Mauro Barthezzati, **Elper Oilfield Engineering**
- 141 **COMMENT:** *Made in Nigeria.* The 2010 Nigerian Content Act is making a significant impact in the country's oil and gas industry
- 142 **VIEWPOINT:** *Dive into success.* Humphrey Okposo, **Atlantic Marine & Oilfield Services**
- 144 **INTERVIEW:** Chijioko Igwe, **Aveon Offshore**
- 145 **COMPANY PROFILE:** **Baywood Continental**
- 145 **IN THE PIPELINE:** *Annual pipeline loss in Nigeria by crude oil type in 2013*
- 146 **INTERVIEW:** Dahiru Mohammed, **Damagix Nigeria**
- 147 **INVESTOR SPOTLIGHTS:** **Petexgy Energy Services, Asbury International, Julius Berger Nigeria**
- 148 **MARKET ANALYSIS:** *Nigeria's infrastructure puzzle.* Chinedu Maduakoh, **Topline Pipeline & Processing Engineers**
- 148 **IN COMPARISON:** *Warehouse construction permit processes in selected African countries, 2015*
- 149 **INTERVIEW:** Manssour Jarmakani, **Jagal Group**
- 150 **COMPANY PROFILE:** **IGPES**
- 150 **IN INDUSTRY:** *Domestic manufacturing sector contribution to Nigeria's GDP, 2014*
- 152 **INVESTOR SPOTLIGHTS:** **Dekey Global Concept, Stat Marine Nigeria, Westfield Subsea, Midis Energy Services**

#### 154 MARINE SERVICES & LOGISTICS

- 155 **ARTICLE:** *Local discontent.* If Nigerians are to remain viable in the offshore sector, they need to develop necessary skills and resources to compete with international firms
- 156 **IN CARGO:** *Laden container throughput at Nigerian ports*
- 157 **INTERVIEW:** Simone Volpi, **Orlean Invest**
- 158 **INTERVIEW:** Uche Obilor, **Hercules Offshore**
- 159 **COMMENT:** *Pirate problems.* Nigeria is trying to battle issues of piracy, which negatively impact the oil and gas industry
- 160 **INTERVIEW:** Barry Adedamola, **CNS Marine Nigeria**



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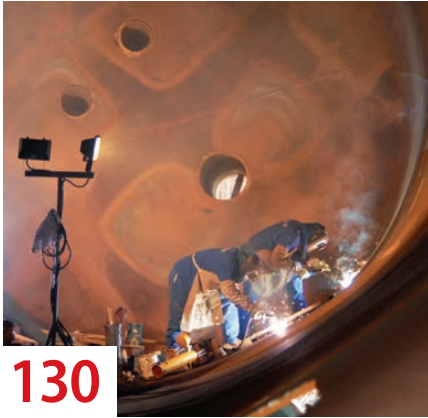


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130

**Engineering & Construction**

The push for local content has seen many sectors of the Nigerian oil and gas industry develop into robust markets for domestic opportunity. In the country's engineering and construction sector, local firms are partnering up to tackle complex manufacturing and fabrication contracts for major projects such as Total's Egina project and Shell's Bonga West field development. Though opportunities abound, firms must be careful not to overextend their resources.



154

**Marine Services & Logistics**

The recent scramble for concessions in Nigeria's offshore has necessitated the strengthening of marine infrastructure. As exploration and production in the country's water continues to increase, Nigeria's maritime sector will see a boost in activity. Shallow- and deepwater oil and gas operations will help Nigeria reach its 2030 target of producing upwards of 3 million barrels of oil per day.



184

**Downstream**

Despite the country's high oil and gas reserves and production, Nigeria imports nearly 70 percent of refined petroleum products. Ageing infrastructure, corruption and financial woes have all been inhibitors to the growth of the country's downstream sector. However, a reduction in corruption and renewed interest in increasing Nigeria's refining capacity provides hope that the country can turn a new leaf and begin supplying the majority of domestic petroleum product demand.

- 160 **IN VESSELS:** Nigerian vessel class and category criteria
- 161 **COMMENT:** Cabotage act falls short. Reform needs to be made to the Nigerian Cabotage Act to make it truly effective
- 162 **COMPANY PROFILE:** Slok Nigeria
- 162 **IN THE WATER:** Category one vessels in Nigeria by classification type, Q1 2014
- 164 **COMPANY PROFILE:** Starzs Investment Company
- 164 **IN THE WATER:** Category two vessels by classification type, Q1 2014
- 166 **INTERVIEW:** Nasir Saulawa, Aquashield Oil & Marine Services
- 167 **MAP:** Piracy in West Africa
- 168 **MARKET ANALYSIS:** In the same boat. Isaac Jolapamo, Nigerian Indigenous Shipowners Association
- 168 **IN FLEETS:** Top five companies operating in Nigeria by number of vessels, 2013
- 170 **COMPANY PROFILE:** Caverton Helicopters
- 171 **INVESTOR SPOTLIGHTS:** Seabulk Offshore Operators Nigeria, GMT Energy Resources

**172 ASSOCIATED SERVICES**

- 173 **ARTICLE:** Locally served. Nigeria's associated services sector is crowded with local players
- 173 **IN DATA:** 3D-seismic data acquisition by concession type
- 174 **INTERVIEW:** Ben-Goru Ofeke, DNV GL
- 175 **INVESTOR SPOTLIGHTS:** Structured Resource Business, SmartFlow
- 176 **INTERVIEW:** Sebastiano Fruciano, Bureau Veritas
- 178 **COMPANY PROFILE:** Mikano International
- 180 **INTERVIEW:** Edmund Martin-Lawson, Mantrac Nigeria
- 181 **INVESTOR SPOTLIGHTS:** Schneider Electric Nigeria, Cummins West Africa, Brunel Energy Nigeria, Paradigm Nigeria
- 182 **VIEWPOINT:** Asset protection. Wale Olaye, Halogen Security
- 182 **IN STATS:** Location of vandalism and pipeline ruptures in Nigeria, 2009-2013

**184 DOWNSTREAM**

- 185 **ARTICLE:** A sector in recovery. Nigeria's downstream sector has taken a hit as oil prices drop and refining capacity remains low, but there are plans for improvement
- 186 **IN DISTRIBUTION:** Petroleum product distribution by zone
- 187 **VIEWPOINT:** Free the market. Adekunle Ajala, SPOG Petrochemicals
- 188 **INTERVIEW:** Ngozi Ekeoma, Nepal Oil & Gas Services
- 189 **COMMENT:** To subsidise or not? The Nigerian government is feeling pressure from fuel subsidies
- 190 **MARKET ANALYSIS:** Price slump clears path for CNG. Venkataraman Venkapatthy, Nipco
- 192 **INTERVIEW:** Gabriel Ogbemie, Rainoil
- FOLDOUT MAP:** Midstream and downstream hydrocarbons infrastructure
- 193 **MAP:** Petroleum product distribution per capita by state, 2013
- 194 **PROJECT HIGHLIGHT:** Bonny LNG plant
- 195 **COMPANY PROFILE:** Masters Energy Group
- 196 **PROJECT HIGHLIGHT:** Dangote Refinery and Petrochemical Complex
- 196 **IN SUPPLY:** Nigeria's crude deliveries to local refineries
- 197 **COMMENT:** A refined economy. Nigeria's ageing infrastructure need to undergo upgrades to take advantage of the country's domestic resources
- 197 **IN CAPACITY:** Depot capacity by fuel type and company type
- 198 **MARKET ANALYSIS:** Ascent of aviation fuel. Thomas Ogunbangbe, Cita Petroleum
- 199 **INVESTOR SPOTLIGHTS:** Gulf Treasures, Forte Oil

**200 EXECUTIVE GUIDE**

- 201 ACCOMMODATION
- 204 EVENTS
- 207 ACKNOWLEDGEMENTS | ADVERTISERS INDEX

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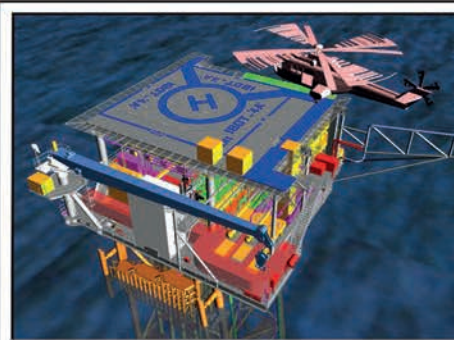
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## THE YEAR IN REVIEW



- 11 **New law, fresh opportunities**  
George OSAHON  
Director  
DEPARTMENT OF PETROLEUM RESOURCES
- 13 **The Year's Awards**
- 15 **Investors Index**



## New law, fresh opportunities

Director of Nigeria's Department of Petroleum Resources (DPR) George Osahon speaks to TOGY about the details of proposed fiscal terms under the Petroleum Industry Bill (PIB) and the changing dynamics in the country's downstream and midstream sectors. The DPR is responsible for ensuring that oil and gas companies comply with Nigeria's petroleum laws, regulations and guidelines.

**What is the philosophy behind the fiscal terms for upstream companies proposed in the PIB?** The difference in opinion on the proposed changes remains the key obstacle to the PIB being passed. Current fiscal terms compensate contracted companies through an investment tax credit (ITC) or investment tax allowance (ITA) depending on the nature of the arrangement.

The ITC and ITA both reward companies by making expenses part of their tax-deductible cost. While ITC fully reimburses companies' expenses, ITA is a deduction for tax purposes and the impact is about 50 percent of what companies gain through ITC. For this reason, operators do

“When a company or equity partner has a history of overrun work-related costs, financial institutions tend to avoid working with them.”

not appreciate the change from ITC to the ITA as contained in the Deep Offshore and Inland Basin Production-Sharing Contracts Act of 1999.

The PIB seeks to change the fiscal concept entirely. Its passing would see companies rewarded through production-based royalties and the general production allowance (GPA), which depends on a company's production rather than its investment or expenditure.

Apart from the GPA, other elements such as the asset location, production volume and price per barrel received versus the official selling price will be factored into the equation in determining how a company is repaid.

The aim is to reward companies for producing rather than spending, which should lower costs across the board, while incentivising them to be more aggressive in achieving production. One of the big flaws under the ITC/ITA regime is that it does not matter whether the claim of a company translates to incremental production

or not, the cost expended enjoys the incentive. This is why there is a wide range of unit costs in the industry, from \$5-50 per barrel.

A value-for-money audit, which assessed expenditure after the fact, had previously been attempted in the industry. This did little to change habits and the audit was received negatively by the industry. The GPA does not aim to mitigate costs via penalties; instead it targets a production-focused incentive. For private-sector companies, bottom-line interests will drive the change to mitigate costs. The government cannot reward you for only spending money.

**Could the proposed fiscal terms of the PIB help the Nigerian National Petroleum Corporation and Nigerian Petroleum Development Company fund their upstream projects?**

The limitation on the part of government to fully fund projects has led to delays in joint venture upstream projects. The government has three options to fund the development of its upstream assets. One is to use state funds, another is to sell equity in assets and the third is to seek external funding from banks or other financial institutions. The latter has been the least attainable due to the inflated cost of government projects, stemming from the ITC and ITA.

Financial institutions would like to engage in partnerships with businesses that have successful track records in operations. When a company or equity partner has a history of overrun work-related costs, financial institutions tend to avoid working with them.

In the past, operators did not want to work on government projects. For example, in the development of the Oso gas condensate field in oil mining licence 70 in the late 1980s, the government had to enact a new law to create access to external funding for the project.

With the new GPA, there will be downward pressure on projects with the government as a partner, as the incentive to spend will be removed and replaced with an incentive to produce. Financial institutions will be more inclined to fund the Nigerian National Petroleum Corporation's projects, opening the door for funding oil and gas operations involving government participation and speeding up final investment decisions for several projects that are on the drawing board.

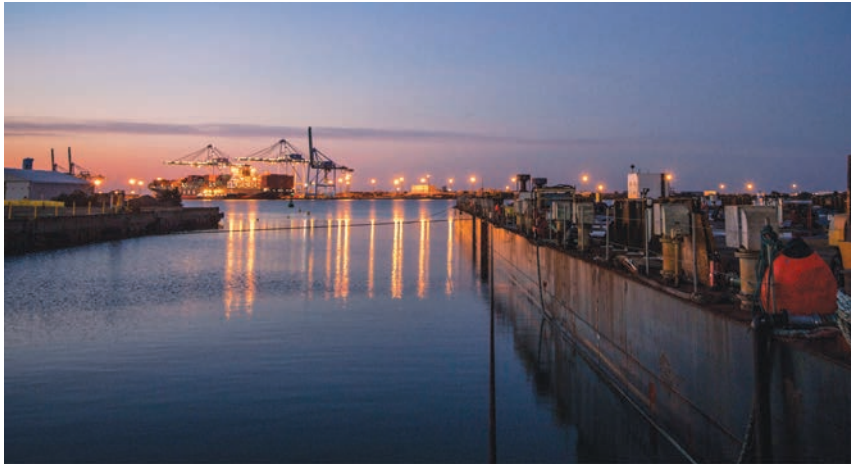


**George OSAHON**  
Director  
**DEPARTMENT OF  
PETROLEUM  
RESOURCES**

### About the Department of Petroleum Resources

*Initially formed as the Hydrocarbons Section of the Ministry of Lagos Affairs in the 1950s, the DPR is responsible for supervising the petroleum industry's activities and ensuring compliance with established laws and regulations. The agency has been credited with the adoption of the electronic and competitive licensing processes, and through its comprehensive review of the fiscal terms for production-sharing contracts, has helped see an additional 780,000 bopd of new oil extracted between 2003 and 2011 from deepwater plays.*





Once passed, the Petroleum Industry Bill will have a major impact on Nigeria's oil and gas industry

### How would changes to block management and allocation impact acreage utilisation?

The PIB's terms do not propose the redrawing of concessions. The bill will implement a "drill or drop" policy. This means that if a company has a five- to 10-year licence for a 500-square-kilometre concession and makes a discovery in a section, it cannot ignore the remainder of the block.

If the company does not have plans to engage in exploratory or development works in those remaining areas, they will be subdivided into 2-square-kilometre units, called quadrants.

**“In the future, no single operator will be allowed to wholly own infrastructure, including pipelines, increasing transparency.”**

These quadrants will form a unit of leasable block that other companies can bid for.

Between 2005 and 2007, the government awarded 77 blocks. Today only one of those blocks is in production because firms are sitting on them while waiting for funding. This level of activities is unacceptable to the government.

### How can efficiency in the downstream sector be improved in the context of a growing economy and increased demand for petroleum?

The PIB will restructure the downstream and midstream sectors. Firstly, a new independent regulatory body will be set up to cater to the downstream and midstream, separating technical and commercial regulatory capacities. In addition, there will be an increased emphasis on the maximisation of facility usage. One of the major issues restricting the midstream and downstream sectors today is the open access to facilities.

For example, some pipelines and associated infrastructure used for transporting liquids and gas are out of use. This is because pipeline

owners are not co-operating with producing companies to maximise the usage of their pipelines. An operator that holds a 100-percent ownership of a pipeline can deny anyone's production from entering that pipeline, even if it is operating below capacity.

The new law will allow the regulator to compel the facility owner to open its system for use by deserving companies. When enforced, it will encourage businesses to invest further in Nigeria's infrastructure. In the future, no single operator will be allowed to wholly own infrastructure, including pipelines, increasing transparency in the midstream and downstream sectors and enabling Nigeria to maximise its existing infrastructure.

There is also an urgent need to boost in-country refining capacity. The DPR encourages investment in mini-refineries, which are less capital-intensive and can be commissioned at a faster rate. These mini-refineries can be established to serve a particular geographical area or projects.

Operators can be incentivised to invest in their own mini-refineries, which offer value-added revenue streams. This will remove the uncertainty associated with crude evacuation, which is subject to theft and changing oil prices, while adding revenue for refined products.

### As domestic operators continue to increase their participation and share of production in the upstream sector, what are the long-term prospects for these companies?

The Nigerian Content Act of 2010 has seen many domestic operators emerge as capable players with real credibility. In the short to medium term, the majority of growth in this industry will come from brownfield projects through the divestment of assets by international oil companies. While many of these assets have matured, much of the gas reserves remain untouched.

In the future, the DPR expects to see more investment from domestic operators in the gas industry as the economics become more favourable. As oil reserves begin to deplete, a secondary gas gap will develop.

Nigeria's gas reserves are estimated at 5.15 tcm (182 tcf) and there is an opportunity for domestic operators to switch their focus to gas production. This is common in most maturing oil provinces, such as the North Sea.

### How do changes to structural pricing for domestic gas utilisation help incentivise growth in gas production, transportation and use in the power generation sector?

In September 2014, the government announced a benchmark increase in the price of produced gas from \$1.50 to \$2.50 per million British thermal units, and pegged transportation costs at \$0.80 per million British thermal units. This price was put in place to encourage gas producers to make long-term financial projections that would allow them to invest in gas production and monetisation in the domestic market.

While the Nigerian Gas Company continues to occupy the centre stage of the gas transportation market, private companies are moving into this area, making the industry more robust and easing concerns over creditworthiness. ■

## IN FIGURES

Nigeria's estimated gas reserves

**5.15 tcm**

Gas price set by the government in 2014

**\$2.50 per million British thermal units**

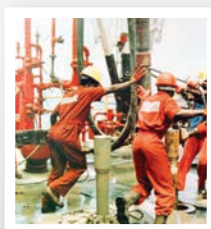
Range of industry unit costs for oil production

**\$5-50 per barrel**



**MAN** OF THE YEAR**President Muhammadu BUHARI**

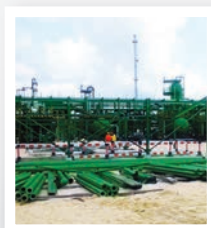
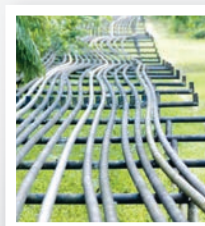
With his landmark victory in the 2015 presidential elections, retired Major General **Muhammadu Buhari** took the helm of Africa's leading oil producer at a critical time. As the first democratically elected, non-incumbent president in Nigeria, Buhari has plans to revamp the oil industry by implementing structural reforms such as improving transparency in the Nigerian National Petroleum Corporation, as seen through his promise to release an audit of the national oil company. With President Buhari's promises to work more closely with the legislative branch than his predecessor, the Petroleum Industry Bill has received increased support as it is a fresh chance to boost Nigeria's most lucrative industry.

**ENGINEERING PROJECT** OF THE YEAR

In June 2013, a consortium led by DeltaAfrik Engineering and including National Engineering and Technical Company, and International Energy Services won the topsides engineering contract for Total's \$15-billion **Egina project**. The \$100-million contract will see **detailed design and engineering of topsides process modules** for the project's floating production, storage and offloading facility. A full 80 percent of the work will be done in Nigeria, creating 800,000 work hours and 400 jobs. With 56 percent completed in 2014, the project is set to end in late 2015.

**DEAL** OF THE YEAR

In October 2014, local downstream giant Aiteo Group revealed that it had acquired Shell, Total and Italian multinational Eni's **45-percent stake in oil mining licence 29 and the 100-kilometre Nembe Creek Trunk Line pipeline for an estimated \$2.5 billion**. The field has reserves of 2.2 billion barrels of oil equivalent. In 2014, the asset produced 43,000 barrels of oil equivalent per day from the Nembe, Santa Barbara and Okoroba fields and associated facilities. The pipeline's throughput capacity is 600,000 barrels of crude oil per day.

**LOCAL CONTENT PERFORMER** OF THE YEAR

Created in 1997 as a metering supplier and installation company, **Makon Group** has grown substantially over the past 18 years, achieving a turnover of more than \$700 million in 2014. In addition to its own successes, Makon Group contributed significantly to the country's Gas Master Plan ambitions in 2014 through a number of key projects, including re-entering sites such as Utorogu, where the company built a 4.25 mcm (150 mcf) gas facility, along with engineering work on the Alakiri and Agbada Non-Associated Gas Facilities.

**FINANCIAL INSTITUTION** OF THE YEAR

In April 2014, the **Nigerian Stock Exchange** completed its first-ever dual listing with the London Stock Exchange through a \$500-million initial public offering (IPO) of Nigerian independent hydrocarbons company Seplat Petroleum. With almost 50 percent of locally sourced capital and more than 65 percent of trading volumes done on the exchange, the role of capital markets in advancing local oil and gas firms is clear. The listing was the largest European initial public offering of an exploration and production company since the 2008 financial crisis.

**UPSTREAM COMPANY** OF THE YEAR

Marginal field producer **Midwestern Oil & Gas** complemented its five drilled wells with the completion of the 51-kilometre Umugini pipeline to increase production from the Umusadege field from 11,000, to more than 18,000 barrels of oil per day by the close of 2014. It aims to produce 25,000 bopd from the field in 2015. In March 2015, the company jointly purchased Shell's oil mining licence 18 for \$1.1 billion as part of the Etrotron consortium. The asset produced 21,000 bopd from six fields and 339,802 cubic metres (12 mcf) per day of gas in 2014.





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## POLITICS

- **Official name:** Federal Republic of Nigeria
- **Population:** 177,155,754
- **Capital city:** Abuja
- **Languages:** English (official), Hausa, Igbo, Yoruba, Fulani, Kanuri and more than 500 others
- **Political system:** Federal republic

## ECONOMY

- **Currency:** Naira (NGN1 = \$0.0058)
- **GDP (2014):** \$594.3 billion
- **Inflation (2014):** 8.3 percent

## GEOGRAPHY

- **Climate:** Equatorial in the south, tropical in the centre, arid in the north
- **Area:** 923,768 square kilometres
- **Natural resources:** Oil and gas, tin, niobium, iron ore, coal, limestone, lead, zinc, arable land

## HYDROCARBONS

- **Oil reserves (2015):** 37 billion barrels
- **Gas reserves (2015):** 5.1 tcm (180 tcf)
- **Oil production (2014):** 2.43 million barrels per day
- **Gas production (2013):** 38.2 bcm (1.35 tcf)

Sources: CIA World Factbook, Oanda, EIA