GUIDELINES FOR FLARE PAYMENTS

ISSUED BY

DEPARTMENT OF PETROLEUM RESOURCES

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GUIDELINES FOR FLARE PAYMENTS

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1. SCOPE

These Guidelines are issued pursuant to Flare Gas (Prevention of Waste and Pollution) Regulations, 2018, and shall apply to Flare Payments for natural gas being flared (flared or vented) at Producers' Production Facilities in Nigeria.

2. OBJECTIVE

The objective of these Guidelines is to define the accounting procedure for Flare Payments for the Producer at Production Facilities with respect to flared and/or Vented Gas.

3. FLARE PAYMENT REGIME

Flare Payments shall apply to any natural gas that is flared and/or vented at Production Facilities of the Producers.

Paragraph 12 of the Flare Gas (Prevention of Waste and Pollution) Regulations, 2018, stipulates that Permit Holders shall not engage in Routine Flaring or venting of natural gas and Paragraph 13 stipulates the applicable Flare Payment regime to the Producers.

4. FLARE PAYMENT AMOUNT ACCOUNTING PROCEDURES

4.1 Accounting Procedure during the Transition Period

- a. During the Transition Period referred to in Section 4.9 of the Guidelines for Flare Gas

 Measurement Data Management and Reporting Obligations 2018, the Accounted

 Flare Gas quantity will be used as the basis for calculating the Flare Payments.
- b. The Accounted Flare Gas quantities are calculated as follows:

Accounted Flare Gas quantities = (A*B) - C - D - E - F - G, where:

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- A = Associated Gas Production quantities (metered or accounted)
- B = 1 Shrinkage Factor
- C = Own Consumption quantities (metered or accounted)
- D = Gas for Existing Offtake Commitments (metered)
- E = Liquids extracted from Associated Gas (metered or accounted)
- F = Flare Gas delivered to Third Party Flare Commercialisation Projects (metered)
- G = Flare Gas delivered for Producer's Approved Flare Out Project (metered).
- c. The Chargeable Flare Gas Quantity equals the Accounted Flare Gas quantity less Contracted Guaranteed Flare Gas Buyer Shortfall.
- d. The Flare Payment Amount is calculated by multiplying the Chargeable Flare Gas Quantity by the applicable Flare Payment rate in US\$/Mscf.

Table 1: Producer's Flare Payment Amount Accounting Template (Transition Period)

Α	В	С	D	E	F	G
OML/	Crude oil	Accounted	Contracted	Chargeable	Applicable Flare	Flare
Marginal	Production in	Flare Gas	Guaranteed	Flare Gas	Payment rate	Payment
Field ID	the OML/	quantity	Flare Gas	quantity	$[B \ge 10,000]$	Amount due
	Marginal	(Mscf)	Buyer	(Mscf) [C-D]	<u>bopd</u>	(\$US)
	Field (Bopd)		Shortfall		(\$2.00/Mscf)]	[G = E * F]
			(Mscf)			
					[B < 10,000	
					<u>bopd</u>	
					(\$0.50/Mscf)]	

4.2 Accounting Procedure Post Transition Period

- a. The Compounded Flare Gas Quantities is the sum of Flare Gas quantities and Unaccounted Flare Gas quantities.
- b. The Chargeable Flare Gas Quantity equals the Compounded Flare Gas Quantity less the Contracted Guaranteed Flare Gas Buyer Shortfall.
- c. The Flare Payment Amount is calculated by multiplying the Chargeable Flare Gas Quantity by the Applicable Flare Payment in US\$/Mscf.

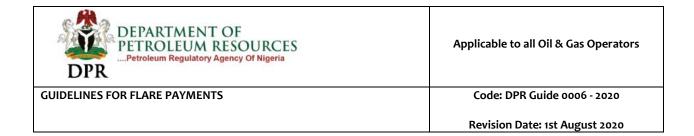


Table 2: Producer's Flare Payment Amount Accounting Template (Post Transition Period)

Α	В	С	D	E	F	G	Н
OML/	Crude Oil	Flare	Unaccount	Contracted	Chargeable	Applicable	Flare
Marginal	Production	Gas	ed Flare Gas	Guaranteed	Flare Gas	Flare Payment	Payment
Field ID	in the OML/	quantity	quantities	Flare Gas	quantity	rate	Amount
	Marginal	-	(Mscf)	Buyer	(Mscf)[C+D-E]	[B ≥ 10,000	(\$US)
	Field (Bopd)	metered		Shortfall		bopd	[H = F * G]
		(Mscf)		(Mscf)		(\$2.00/Mscf)],	
						[B < 10,000	
						bopd	
						(\$0.50/Mscf)]	

5. FLARE PAYMENT ADMINISTRATION

5.1 Flare Payment Procedure

- a. The Department of Petroleum Resources shall collate and reconcile reported monthly oil production figures in OMLs and Marginal fields.
- b. Producers must present the data in accordance with the Guidelines for Flare Gas Measurement Data Management and Reporting Obligations.
- c. An average monthly oil production, taking into consideration only days during which oil was produced, will be used to establish the applicable Flare Payment.
- d. The various elements that contribute to the determination of the Chargeable Flare

 Gas Quantity shall be validated by the Department of Petroleum Resources.
- e. The Flare Payment Amount shall be computed monthly as a product of the Chargeable Flare Gas Quantity in thousand standard cubic feet (Mscf) multiplied by the applicable Flare Payment rate.
- f. Flare Payment Amounts shall be paid by the Producer in accordance with the procedures for payment of royalties to the Federal Government of Nigeria, provided for in Section 3 of the Associated Gas Re-Injection Act 1979.
- g. Reporting shall be done in accordance with Paragraph 19 of the Flare Gas (Prevention of Waste and Pollution) Regulations 2018.

5.2 Flare Payment Additional Considerations

- a. No Flare Payment Amounts shall become due in respect of an agreed volume of Flare Gas that the Producer is committed to deliver to the Permit Holder under a Deliver or Pay Agreement entered into with the Permit Holder as from the commencement of commercial operations of the Project, as stipulated in Paragraph 13 (3) of the Regulations.
- b. The provision under Section 5.2 (a) above ceases upon expiration of the term of the Gas Sales Agreement signed with the Permit Holder for the applicable Project.

6. NON-COMPLIANCE AND PENALTY

6.1 Non-Compliance

The additional payment, referred to in Paragraph 21 of the Flare Gas (Prevention of Waste and Pollution) Regulations 2018, applies where a Producer fails to meet the obligations as stated in Paragraph 21 (1) of the Flare Gas (Prevention of Waste and Pollution) Regulations, 2018. This includes where a Producer inhibits or disrupts the process of the Federal Government of Nigeria in granting Permits to Access Flare Gas or delivering natural gas under the Gas Sales Agreement as stipulated in Paragraph 21 (1) (c) and (d).

6.2 Late Payment

Failure to remit the Flare Payment Amount by the Producer shall attract applicable sanctions as provided for in Section 40 of the First Schedule of the Petroleum Act 1969.

7. GLOSSARY

Accounted Flare Cas	The Accounted Flore Cas quantities are calculated as follows:
Accounted Flare Gas	The Accounted Flare Gas quantities are calculated as follows:
	Accounted Flare Gas quantities = (A* B) - C- D - E - F – G,
	where
	A= Associated Gas Production quantities (metered or accounted),
	B = Shrinkage Factor,
	C = Own Consumption quantities (metered or accounted),
	D = Gas for Existing Offtake Commitments (metered),
	E = Liquids extracted from Associated Gas (if metered or accounted
	for),
	F = Flare Gas delivered to Third Party Flare Commercialisation
	Projects (metered), and
	G = Flare Gas delivered for Producer`s Approved Flare Out Projects
	(metered).
	During the Transition Period the Accounted Flare Gas quantity will
	be used as the basis for calculating the Flare Payments.
Associated Gas (AG)	Gas associated with Crude Oil or Condensate production
Associated Gas	Quantities of Associated Gas produced
Production	
Buyer Gas Connection	The natural gas pipeline used to transport Flare Gas from the
Assets	Delivery Point at the perimeter of the Flare Site to the Project
	Facility and any other equipment, machinery or other property of
	any kind that are owned or leased by the Flare Gas Buyer to take
	delivery of Flare Gas under the Connection Agreement
Chargeable Flare Gas	The Flare Gas quantity used for calculating the Flare Payment to be
Quantity	paid by the Producer as defined in the Guideline for Flare Payments

Compounded Flare	The sum of the Flare Gas quantities and Unaccounted Flare Gas
Gas Quantities	quantities
Condensate	A low-density, high-API gravity liquid hydrocarbon phase that
	generally occurs in association with natural gas
Contracted	The Guaranteed Flare Gas quantity contracted by the Flare Gas
Guaranteed Flare Gas	Buyer under the Gas Sales Agreement, and for which Flare Gas
	Buyer has entered into a Deliver or Pay Agreement with the
	Producer
Contracted	Contracted Guaranteed Flare Gas that was made available by the
Guaranteed Flare Gas	Producer under the Deliver or Pay Agreement which the Flare Gas
Buyer Shortfall	Buyer did not take
Crude Oil	Oil in its natural state before it has been refined or treated
	(excluding water and other foreign substances)
Deliver or Pay	An agreement that the Producer may sign with the Flare Gas Buyer
Agreement	under which the Producer guarantees to supply an agreed quantity
	of gas to the Flare Gas Buyer
Delivery Point	Point within the Metering Station at which title of the Flare Gas
	passes from the Seller to the Flare Gas Buyer
Department of	The Department of Petroleum Resources of the Federal Ministry of
Petroleum Resources	Petroleum Resources, or any successor entity that has statutory
(DPR)	responsibility for ensuring compliance with petroleum laws,
	regulations and guidelines related to the oil and gas industry in
	Nigeria
Existing Offtake	Gas delivery commitment that the Producer has in place for the
Commitment	delivery of Associated Gas to a third party or a Producer Entity prior
	to the Regulations becoming effective
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Flare Gas	Any natural gas produced in association with crude oil by a
	Producer and finally diverted toward a Flare Site by the Producer
	with the intent that the natural gas will be flared, including any such
	natural gas from a Greenfield Project
Flare Gas Buyer	Preferred Bidder which has, as Flare Gas Buyer, executed the Final
	Commercial Agreements
Flare Gas Connection	The point where the Gas Connection Assets tie into the facilities of
Point	the Producer
Flare Gas Flared	Flare Gas volumes flared at a Flare Stack
Flare Gas Header	The gas facility or facilities within the Producer's existing
	infrastructure from where Associated Gas is directed to the Flare
	Stack (Flare Gas Connection Point may or may not be at the Flare
	Gas Header)
Flare Gas (Prevention	The Regulations by this name that were signed into effect on the 5 th
of Waste and	of July 2018, also referred to as the Regulations in the Guidelines
Pollution) Regulations	
2018	
Flare Gas-to-Market	A product delivered by the Project to an Off-Taker after having
Product	been processed and/or transported by the Flare Gas-to-Market
	Technology
Flare Payment	Payment made by the Producer in US Dollars for each Mscf of Flare
	Gas flared or vented as defined in the Regulations
Flare Payment Amount	The payment made by the Producer to the Federation Account of
	the Federal Government of Nigeria as stipulated in the Flare Gas
	(Prevention of Waste and Pollution) Regulation 2018 based on the
	Flare Payment and the Chargeable Flare Gas quantity

Flare Site	As defined in the Regulations, a location where natural gas
	produced in association with Crude Oil and/or Condensate is flared,
	commencing at a Flare Gas Header and going to the point of the
	flare within an Oil Mining Lease or Marginal Field area or within an
	oil terminal or refinery. A Producer may consolidate operations for
	more than one production area into one or more Flare Sites. Flare
	Stacks connected to different Flare Gas Headers are considered to
	be separate Flare Sites.
Flare Stack	Gas combustion device used at the Flare Site or at the Project to
	burn Flare Gas
Gas Connection Assets	Assets that include:
	(a) Buyer Gas Connection Assets; and
	(b) Producer Gas Connection Assets
Gas Sales Agreement	An agreement, conforming substantially to the template appended
	to the request for proposal by the Federal government of Nigeria in
	the Programme, whereby Flare Gas is sold by the Seller to the Flare
	Gas Buyer
Greenfield Project	Any project to develop new oil or natural gas production from an
	Oil Mining Lease or Marginal Field after the effective date of the
	Flare Gas (Prevention of Pollution and Waste) Regulations, 2018
Marginal Field	As defined in the Regulations, an Oil Field within an Oil Mining Lease
	area awarded to an applicant in relation to a field identified as a
	marginal field by the President of the Federal Republic of Nigeria
Metering Station	A gas measuring, control and registering station funded, designed,
	equipped and built according to industry standards by the Flare Gas
	Buyer. This station incorporates the Delivery Point and is located

within the Producer's property at the perimeter of the Flare Site			
and forms part of the Producer Connection Assets. This station			
should register, amongst others, the following parameters:			
• Pressure			
Temperature			
Flow rate			
The Minister of Petroleum Resources			
Free natural gas not in contact with, or dissolved in, Crude Oil in the			
reservoir. There may or may not be condensate production			
together with the gas.			
As defined in the Regulations, all flaring other than Routine Flaring.			
Non-routine flaring is typically intermittent and of short duration			
and either planned or unplanned. This includes:			
I. Subject to prudent operations and prompt action on the side			
of the Producer, temporary (partial) failure of equipment that			
handles the gas during normal operations until their repair or			
replacement, e.g. failure of compressors, pipeline,			
instrumentation, controls;			
II. Temporary failure of facilities that prevents receipt of			
Associated Gas;			
III. Safety Flaring;			
IV. Initial plant or field start-up before the process achieves steady			
operating conditions;			
V. Start-up following facility shutdowns;			
VI. Scheduled preventive maintenance and inspections subject to			
it being carried out in a prompt manner and following prudent			

	industry standards;			
	VII. Construction activities, such as tie-ins, abrupt change of			
	operating conditions, plant design modifications;			
	VIII. Process upsets when process parameters fall outside the			
	allowable operating or design limits and flaring is required to			
	stabilise the process;			
	IX. Reservoir or well maintenance activities such as acidification,			
	wire line interventions;			
	X. Exploration, appraisal, or production-well testing or clean-up			
	following drilling or well work-over			
Oil Field	A geographic area under which an oil reservoir lies, and/or a tract of			
	land used for extracting petroleum, otherwise known as Crude Oil,			
	from the ground			
Oil Mining Lease	A lease granted by the Minister to a company incorporated in			
(OML)	Nigeria, which allows such company to search for, win, work, carry			
	away, and dispose of oil			
Own Consumption	Associated Gas quantity consumed by the Producer in the process			
	of production of Crude Oil and/or Condensate (for power			
	generation, heating, artificial lift, re-injection, etc.)			
Permit Holder	A company that has, pursuant to the Regulations, been granted a			
	Permit to Access Flare Gas by the Minister			
Permit to Access Flare	As defined in the Regulations, a permit granted to a Permit Holder			
Gas	by the Minister to take Flare Gas on an exclusive basis from one or			
	more Flare Sites as designated in the permit on behalf of the			
	Federal Government of Nigeria.			
Preferred Bidder	The status given to a Bidder whose proposal for one or more Flare			

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	the implementation of the project;
	iii. achieved financial closing;
	iv. has demonstrated the viability of achieving commercial
	operations by no later than 1 January 2020; and
	v. the Producer has provided a financial guarantee to the
	Federal Government of Nigeria to underpin its commitment
	to milestones for the implementation of the Project
Production Facility	Facility where the Producer processes fluids separating and
	handling Crude Oil, Condensate, water and Associated Gas
Programme	The Nigerian Gas Flare Commercialisation Programme or any other
	program to take Flare Gas at any Flare Site on behalf of the Federal
	Government of Nigeria through a competitive bid process and/or
	through authorisation of Producers' Approved Flare Out Projects
Project	A technically and commercially viable and sustainable Flare Gas
	utilisation project developed by the Flare Gas Buyer either as a Third
	Party Flare Commercialisation Project or a Producer's Approved
	Flare Out Project
Project Facility	The facilities used in the Project, including the surrounding facilities
	and property, at which a Flare Gas Buyer takes Flare Gas as fuel
	and/or feedstock and which produce and/or transport a Flare Gas-
	to-Market Product
Project Flare Gas	Flare Gas flared at the Producer's Flare Stack attributable to
Flared	Contracted Guaranteed Flare Gas Buyer Shortfall and/or vented or
	flared at the Flare Stack at a Project
Regulations	Flare Gas (Prevention of Waste and Pollution) Regulations, 2018
Routine Flaring	Flaring of natural gas produced in association with Crude Oil and/or
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	Condensate during normal oil production operations in the absence		
	of sufficient facilities or amenable geology to re-inject the produced		
	gas, utilise it on site, or dispatch it to a market. Routine Flaring		
	does not include safety flaring even when continuous.		
Seller	The Federal Government of Nigeria, or an entity that is assigned or		
	designed by the Federal Government of Nigeria with respect to the		
	Gas Sales Agreement, and that shall serve as the Seller of the Flare		
	Gas to a Flare Gas Buyer		
Shrinkage Factor	0.30%, which is the estimated percentage of the Associated Gas		
	Production quantity that, due to pressure and temperature		
	variations prior to any metering downstream of the Crude Oil		
	Separators, will transform from gas to liquid phase		
Third Party Flare Gas	A Project awarded under any competitive bid process under the		
Commercialisation	Programme conducted by the Federal Government of Nigeria to		
Project	take Flare Gas on its behalf any Flare Site as set forth in the		
	Regulations		
Transition Period	Period during which the Producers and Processing Facilit		
	operators must install the metering system as laid out in the		
	Guidelines for Flare Gas Measurement Data Management and		
	Reporting Obligations		
Unaccounted Flare Gas	Flare Gas quantities that Producers cannot account for, calculated		
	as (A*B) - C - D - E - F - G – H, where:		
	A = Associated Gas Production quantities B = 1 - Shrinkage Factor C = Own Consumption quantities		
	D = gas quantities delivered under Existing Offtake Commitments		

	E = Liquids extracted from Associated Gas (if metered or accounted		
	for)		
	F = Flare Gas delivered to Third Party Flare Commercialisat		
	Project		
	G = Flare Gas delivered for Producers Approved Flare Out Project		
	H = measured or accounted Flare Gas quantities going to the Flare		
	Stack		
Vented Gas	Gas that is released into the environment without being combusted		
Vented Gas Quantity	The quantity of Flare Gas vented either by a Producer, a Permit		
	Holder or a Processing Facility		

Approved by			
Engr. Sarki Auwalu, MNSE (Director/CEO, Department of Petroleum Resources)	JummlSmhi		
	Date	1 st August 2020	