

**Unitisation Regulations
Under Section 80
Petroleum Industry Act (2021).**

Commencement Date: XX/XX, 2022

Objective

1. The objective of these regulations is to regulate the provisions related to unitisation pursuant to section 80 of the Petroleum Industry Act (the "Act") and shall apply to unitisation under a licence or lease preserved by the Act.
2. These regulations shall be applied together with any guidelines or directives that may be issued by the Commission, from time to time, in respect to the unitisation of petroleum production from any fields.

3. Preliminary Issues

- a) A licensee or lessee shall, in carrying out geophysical activities involving the acquisition of geophysical data within two (2) kilometres of its license or lease boundary(ies) shoot across the boundary(ies) into any adjoining license or lease to a distance of not less than two (2) kilometres.
- b) The acquisition of geological data pursuant to these regulations shall be with the prior approval of the Commission and notification to the licensee or lessee of the adjoining license or lease.
- c) The licensee or lessee shall process and interpret the geological data acquired pursuant to these regulations and may provide to the licensee or lessee of any adjoining license or lease the processed data or any interpretation of the data.
- d) The licensee or lessee shall map all geological traps in its license or lease area considered to straddle one or more adjoining license or lease boundary(ies) with the knowledge of the other party/parties.

Notification of Hydrocarbon Discovery

4 (1) A licensee or lessee who identifies a petroleum reservoir in a geological trap(s) in his license or lease area which appears to straddle one or more adjoining licenses or leases, shall submit a report of the discovery within two (2) weeks of well suspension or abandonment to the Commission.

(2) The report pursuant to sub regulation (1) shall be followed within sixty (60) days by a full report stating the following information for each petroleum reservoir which extends beyond the boundaries of a license or lease area –

- (a) General information about each shared petroleum reservoir:

- (i) The parcel and sub-parcel in which the exploration well is located in which the discovery was made;
 - (ii) Name or identification of a reservoir;
 - (iii) The date on which a reservoir was identified;
 - (iv) The bottom hole location and depth of the well;
 - (v) A preliminary estimate of the location and aerial extent of the petroleum reservoir or reservoirs encountered in the well;
 - (vi) Details of the geological structure or underground formation and field in which a reservoir is located;
 - (vii) The results of all assessments of a reservoir;
 - (viii) If the rate or quantity of production of petroleum and water from the well that resulted in the discovery has been determined – that rate or quantity;
 - (ix) Where a preliminary estimate of the quantity of recoverable petroleum in the petroleum reservoir or reservoirs has been made, such estimate.
- (b) The studies with which the existence of each petroleum reservoir was identified;
- (c) Any other relevant information.

5(1) If a petroleum reservoir referred to in regulation 4(1) of these Regulations extends into an area which is part of a licence or a lease issued to different licensees or lessees, the licensee or lessee shall also notify in writing such other licensees or lessees.

(2) The Commission shall upon review of the information submitted to it under regulation 4(1) of these Regulations, notify in writing such different licensees or lessees of the extension of identified petroleum reservoirs which extend to their licenses or leases from adjoining areas.

Reservoirs extending into adjoining license or lease areas

6 (1) The Commission shall, where a straddling reservoir extends into an adjoining license or lease area where the adjoining license or leases holder has not carried out any exploratory activity, require the licensee or lessee of the adjoining license or lease to commence exploration activities to confirm the existence of Hydrocarbon in the geological trap which appears to straddle into its license or lease area.

(2) A licensee or lessee who receives a directive from the Commission pursuant to (1) shall within one (1) month inform the Commission in writing whether it would carry out exploratory activities to confirm the existence of hydrocarbon in the straddling geological structure.

(3) Where the licensee or lessee pursuant to sub regulation 2 elects to carry out the confirmatory exploratory activities, the licensee or lessee shall, within three (3) months of informing the Commission of that election submit;

- (i) an exploration programme that is acceptable to the Commission in terms of scope and timing; or
- (ii) submit a written rebuttal to the Commission with copies to the other party.

(4) Where the licensee or lessee submits a rebuttal, the Commission may invite all the licensees or lessees concerned for a resolution and where the parties are unable to

agree, the Commission shall make a determination as to whether the reservoir should be developed as a unit and such decision shall be final.

- (5) The Commission shall, in the case of a producing and non-producing field, where the Commission is satisfied that a Field in any such license or lease straddles the boundary of the other license or lease, direct the parties to develop the field as a Unit.

Extension to areas not covered by a licence or lease

7. Where a petroleum reservoir extends beyond the boundaries of the licence or lease into an adjacent area which is not covered by a licence or lease, and the licensee or lessee has made a declaration of a commercial discovery in relation to such reservoir, the Commission may –

- (a) extend the boundaries of the licence or lease to include the entire petroleum reservoir within such licence or lease, provided that the licensee or lessee submits to the Commission a field development plan that includes the additional adjacent area acceptable to the Commission; or
- (b) within six (6) months of being notified of the commercial discovery, conduct a licensing round for the adjacent area in accordance with the licensing round guidelines and the provisions of the applicable laws and regulations.

Pre-unit Agreement

8. (1) Where a licensee or lessee provided a notification pursuant to regulation 3(1) of these Regulations, such licensee or lessee may enter into a voluntary pre-unit agreement with adjacent licensees or adjacent lessees with the aim to carry out in a coordinated manner a joint appraisal program to confirm the characteristics of the shared reservoir or reservoirs. Such activities shall only be performed under work programmes approved by the Commission.

(2) Where the parties decide not to enter into a pre-unit agreement, the parties shall continue to perform the activities pursuant to the provisions of their licences or leases.

(3) The request to carry out a joint appraisal program under a pre-unit agreement shall be submitted to the Commission in writing and shall be dealt with pursuant to the provisions related to appraisal programs under the Act and its regulations.

(4) The pre-unit agreement may contain the following information, at the option of the parties involved –

- (a) Procedures for the exchange of information between the parties involved;
- (b) Program of the coordinated exploration and appraisal operations aimed at delineating the shared reservoir or reservoirs;
- (c) Procedures to resolve controversies between the parties involved;
- (d) The proposed duration of the agreement, which may extend up to the date a possible unit agreement is entered into;
- (e) Any other information the licensee or lessee considers of relevance or importance to the matter.

(5) The parties to a pre-unit agreement shall provide a copy of such agreement to the Commission.

(6) If the parties consider that it is necessary to carry out exploration or appraisal works which have not been part of the work program approved by the Commission under a pre-unit agreement, the parties shall present modifications to the work program under a pre-unit agreement for the review and approval of the Commission pursuant to the Act and its regulations.

(7) Where the parties have completed a joint appraisal program, the parties shall jointly make the respective declarations pursuant to section 78(8) of the Act.

Declaration of a commercial discovery

9. (1) Where the parties to a joint appraisal program pursuant to section 5(3) of these Regulations make a declaration that the discovery is commercial pursuant to section 78(8)(a) of the Act, the parties may make a further declaration on the same date for approval by the Commission that the parties consider that a unit agreement is not required¹ and that the parties shall go forward to make separate proposals for field development plans.

(2) Where a licensee or lessee, who provided a notice pursuant to regulation 4(1) of these Regulations makes a declaration that the discovery is commercial, the licensee or lessee may make a further declaration on the same date for approval by the Commission that the licensee or lessee considers that a unit agreement is not required and that the licensee or lessee shall make a proposal for a field development plan related to the reservoir or reservoirs situated in its petroleum prospecting licence or lease.

(3) Where a declaration is made pursuant to sub regulations (1) or (2) of these regulations, that a unit agreement is not required, the Commission shall review such declaration and within ninety (90) days inform the parties, whether the Commission approves or not of such declaration. The Commission shall not approve such declaration where in the opinion of the Commission separate field developments, compared to a unitised development, may result in:

- (a) A lower overall maximum economic recovery;
- (b) Higher overall capital or operating costs or both; or
- (c) Lower overall royalty revenues from the commercial discovery.

(4) Where no further declaration pursuant to sub regulations (1) or (2) of these regulations is made, it shall be considered as sufficient evidence by the Commission that unitisation is required.

Unitisation procedure

10. (1) Where the Commission decides that unitisation is required, it shall direct the parties to enter into a unit agreement and such parties shall within a time period decided by the

Commission, which shall not be less than two years from such directives, pursuant to section 80(3) of the Act, present their proposed unit agreement for approval by the Commission.

(2) During the unitisation process, the licensee or lessee may continue with their operations. If the Commission reasonably believes that the activities of licensees or lessees may negatively affect the optimal recovery of petroleum from petroleum reservoirs or the rights of other licensees or lessees, the Commission may order the termination of such activities until there is an approved unit agreement.

(3) The unit agreement under sub regulation (1) of this regulation shall be prepared based on good international petroleum industry practices, and include, as a minimum, the following information –

- (a) The list of licensees and lessees involved with information about their licence or lease areas;
- (b) The rights and obligations of the parties under a unit agreement and penalties in case of non-compliance with any of them, including those relating to insurance, industrial safety, operational safety, protection to the environment and abandonment in the unitised area;
- (c) Estimated types and volume of the hydrocarbons contained in each licence or lease area involved, as well as the technical studies supporting such estimates;
- (d) Determination of the initial distribution of the production of hydrocarbons between the parties, as well as the participation interests of each licensee or lessee and corresponding working interest of participants in each licence or lease involved;
- (e) The procedures and methodologies to determine how the income, production, profits, expenses and responsibilities of the unit operations will be accounted for, distributed and assumed, as the case may be, in accordance with applicable laws and regulations;
- (f) The proposed field development plan to be prepared in accordance with the applicable laws and regulations, including:
 - (i) The administration of the wells and infrastructure in existence prior to the approval of a unitisation agreement;
 - (ii) The agreements for the use and maintenance of the infrastructure located in the unitised area and adjacent areas;
 - (iii) The treatment of petroleum and other substances in the unitised area;
 - (iv) In the case the unit development involves water injection or other recovery operations based on the introduction of substances into the reservoir, information about such substances, their nature, the

arrangements for the measurement of the produced and injected volumes.

- (g) The proposed operator and operating agreement prepared based on good international petroleum industry practices;
- (h) The procedures for management, exchange and delivery of information between the licensees or lessees involved;
- (i) The criteria, conditions and procedures by which the determination and redetermination of participating percentage in the unitised area will take place;
- (j) The mechanisms to be used for the resolution of conflicts and controversies between the parties to the unit agreement.

Renewal of leases

11. Where a petroleum reservoir unitised pursuant to these regulations is able to continue in production after the expiration of one or more leases relating to the petroleum reservoir or reservoirs, the respective lessee shall request a renewal of the lease pursuant to the Act and the Commission may grant such renewal in the unitised field.

Approval of a unit agreement

12. (1) The Commission shall upon review of the proposed unit agreement submitted to it under regulation 10 of these Regulations, within ninety (90) days from the receipt of the proposed agreement notify the applicants in writing of its decision. Where the Commission does not respond within the time limit the unit agreement shall be deemed approved.

(2) The Commission shall approve the proposed unit agreement if the Commission is reasonably satisfied that the plan is:

- (a) Technically feasible;
- (b) Achieves an optimal maximum economic recovery;
- (c) Achieves the lowest possible capital and operating costs; and
- (d) Creates the highest possible royalty revenues for government.

(3) If the Commission is not reasonably satisfied with the proposed unit agreement, the Commission shall provide the reasons for such rejection and give the licensee or the lessee a reasonable opportunity not exceeding sixty (60) days to modify and resubmit the proposed unit agreement.

Independent consultant

13. (1) Where the applicable licensees or lessees are unable to reach an agreement within the time limit imposed by the Commission pursuant to regulation 10(1) of these Regulations, the Commission shall require the licensees or lessees to jointly appoint an independent consultant to develop terms and conditions of the unit agreement

(2) Such terms and conditions shall be based on good international petroleum industry practices, fair and equitable to licensees or lessees and the Government and which shall be binding on the licensees or lessees after approval by the Commission.

(3) Where the applicable licensees or lessees fail to appoint a consultant within sixty (60) days as directed by the Commission, the Commission shall appoint a consultant for the parties.

(4) The remuneration of the consultant, appointed under sub regulation (1) of this regulation or under sub regulation (3) of this regulation shall be paid by the licensees or lessees. Where necessary, the Commission may request a bank guarantee, whose funds will be used to pay for the consultant's services. If there is a remaining balance, such balance shall be returned to the licensees or lessees involved.

(5) The Commission shall decide on the time frame for the consultant to deliver the respective draft unit agreement for its approval.

(6) The Commission shall review the draft unit agreement within ninety (90) days from the presentation by the consultant and approve of such draft and where the Commission disapproves of the draft, provide a further time frame for the consultant to present an improved draft.

(7) Upon the approval of the draft unit agreement by the Commission, each licensee or lessee shall have thirty (30) days to review the draft agreement and obtain clarifications from the consultant.

(8) The consultant shall issue its final unit agreement with its recommendations within sixty (60) days of receipt of inputs from the licensees or lessees for approval by the Commission. The final unit agreement shall be binding on the licensees or lessees after approval by the Commission.

(9) Any communication between the consultant and the licensees or lessees shall be in writing with a copy of any correspondence given to the Commission.

Modifications to a unit agreement

14. Whereas the result of new information, the parties to a unit agreement reasonably believe that changes to the unitisation are required, the parties may jointly submit to the Commission proposals for modification to the unit agreement, supporting such proposals by technical studies and other relevant information. Any proposed changes, including redetermination cannot have a retroactive effect.

Transboundary matters

15. (1) Unitisation of any shared reservoirs which extend outside the territory of Nigeria shall be carried out in accordance with the applicable international agreements or treaties to which Nigeria is a party, or in the absence of such international agreements or treaties, based on consultations with competent authorities of such other jurisdictions.

(2) Notification about reservoirs which may extend outside the territory of Nigeria shall be made by the Commission through the ministry responsible for foreign affairs.

Interpretations

16. (1) In addition to the definitions contained in the Petroleum Industry Act, 2021 the following definitions shall apply to these Regulations:

"Act" means Petroleum Industry Act, 2021;

"applicable law" shall be the laws, regulations and decrees of Nigeria;

"infrastructure" means all machinery, tools, equipment, articles, supplies, pipes, drilling or production platforms, naval devices, plants, and other facilities acquired, supplied, leased or owned in any other way for use in upstream petroleum operations;

"licensing round" means the licensing round as contemplated under section 74(1) of the Act;

"licensing round guidelines" shall be the licensing round guidelines as defined in section 75 of the Act;

"maximum economic recovery" means the recovery of economically recoverable petroleum in a manner that creates the maximum project value for investors and the State, through:

- (a) creating infrastructure in an optimal configuration;
- (b) achieving optimal levels of field performance;
- (c) creating cost effective production;
- (d) applying new and emerging technologies to their optimum effect; and
- (e) permitting decommissioning in the most effective way.

"notice" means any notice, consent, request and other document authorized or required to be given pursuant to regulations under the Act;

"operator" means a company with the characteristics to be appointed as operator pursuant to the provisions of a joint operating agreement ("JOA") by the members of the JOA to manage and conduct the petroleum operations in a safe and efficient manner on behalf of the JOA;

"royalty" or "royalties" means a royalty or royalties in accordance with section 306 of the Act;

"unitisation agreement" means an agreement pursuant to section 80 of the Act; and

"well" means a hole drilled into the earth for the purpose of locating, evaluating, producing or enhancing the production of petroleum or injection of any fluid into a subterranean reservoir.

Short title

17. These Regulations may be cited as the Unitisation Regulations and are regulations under section 80 of the Petroleum Industry Act, 2021.