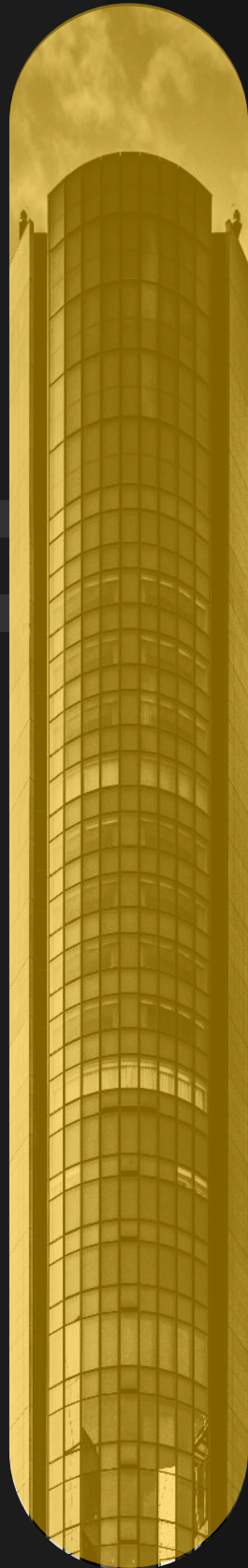
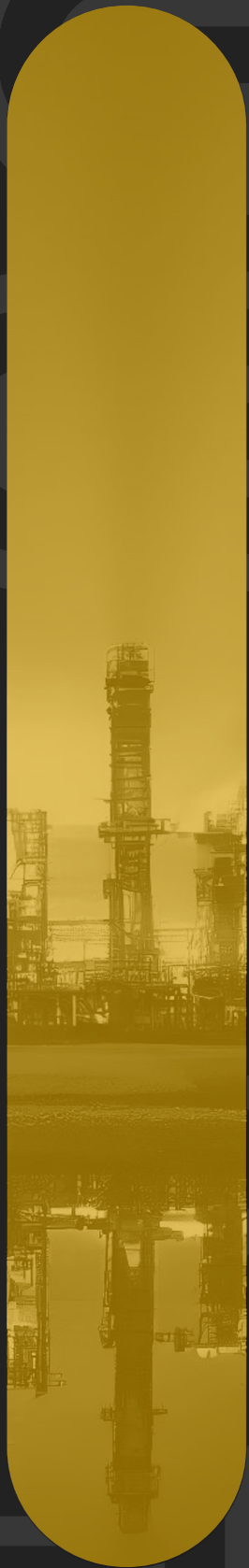




OLANIWUN  
AJAYI



# OIL & GAS

2023 | 2024  
WRAP UP | OUTLOOK



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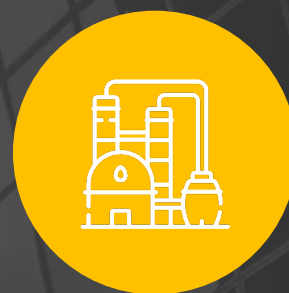
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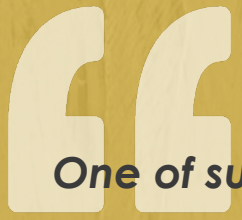
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# FOREWORD



***One of such deals that stands out is one where the joint English and Nigerian team of Olaniwun Ajayi advised NNPC Limited in connection with a landmark US\$3.3 Billion structured financing, the largest syndicated loan ever raised in Nigeria in the International market and one of the largest syndicated debts raised in Africa in recent.***



With a focus on the major events of 2023 and the outlook for 2024, we are thrilled to present the seventh edition of our Annual Oil and Gas Report (this Report). 2023 could aptly be described as engaging, not only for the Nigerian oil and gas industry but also for the Federation of Nigeria. It was an election year that witnessed a change in government, influencing policy direction ranging from fuel subsidy removal to government policy on foreign exchange.

The year under review was marked with, amongst others, a continuation of divestments by IOCs, increased upstream participation by indigenous companies, the deep offshore mini bid rounds, the issuance of the first petroleum exploration license under the PIA, and the issuance of gas flare licenses to awardees under the National Gas Commercialization Programme – a laudable effort to deepen gas investments.

Indicative of a fast-evolving industry, there was increased regulatory drive by the industry regulators through the issuance of a substantial number of regulations outnumbering the regulations issued in the preceding year. A major feat for the year was the commissioning of the 650,000 bpd Dangote Petrochemical Refinery, which is expected to cater to domestic fuel requirements, by producing about 53 million liters of petrol a day, thereby meeting Nigeria's 33 million per day petrol consumption, in addition to exporting refined surpluses from the refinery.

Olaniwun Ajayi LP was involved in advising on significant and industry-shaping transactions operating as a Nigerian firm with an international presence via our London and OHADA practices. As a firm, we take great satisfaction in our active involvement and support of various organizations in accomplishing their key objectives over the past year. We had the privilege of contributing to several landmark deals throughout the oil and gas value chain. One of such deals that stands out is one where the joint English and Nigerian team of Olaniwun Ajayi advised NNPC Limited in connection with a landmark US\$3.3 billion structured financing, the largest syndicated loan ever raised in Nigeria in the International market and one of the largest syndicated debts raised in Africa in recent.

From the oil and gas team here at Olaniwun Ajayi LP, we thank you for being part of our journey in 2023 and look forward to even more exciting times this year.

Happy reading!

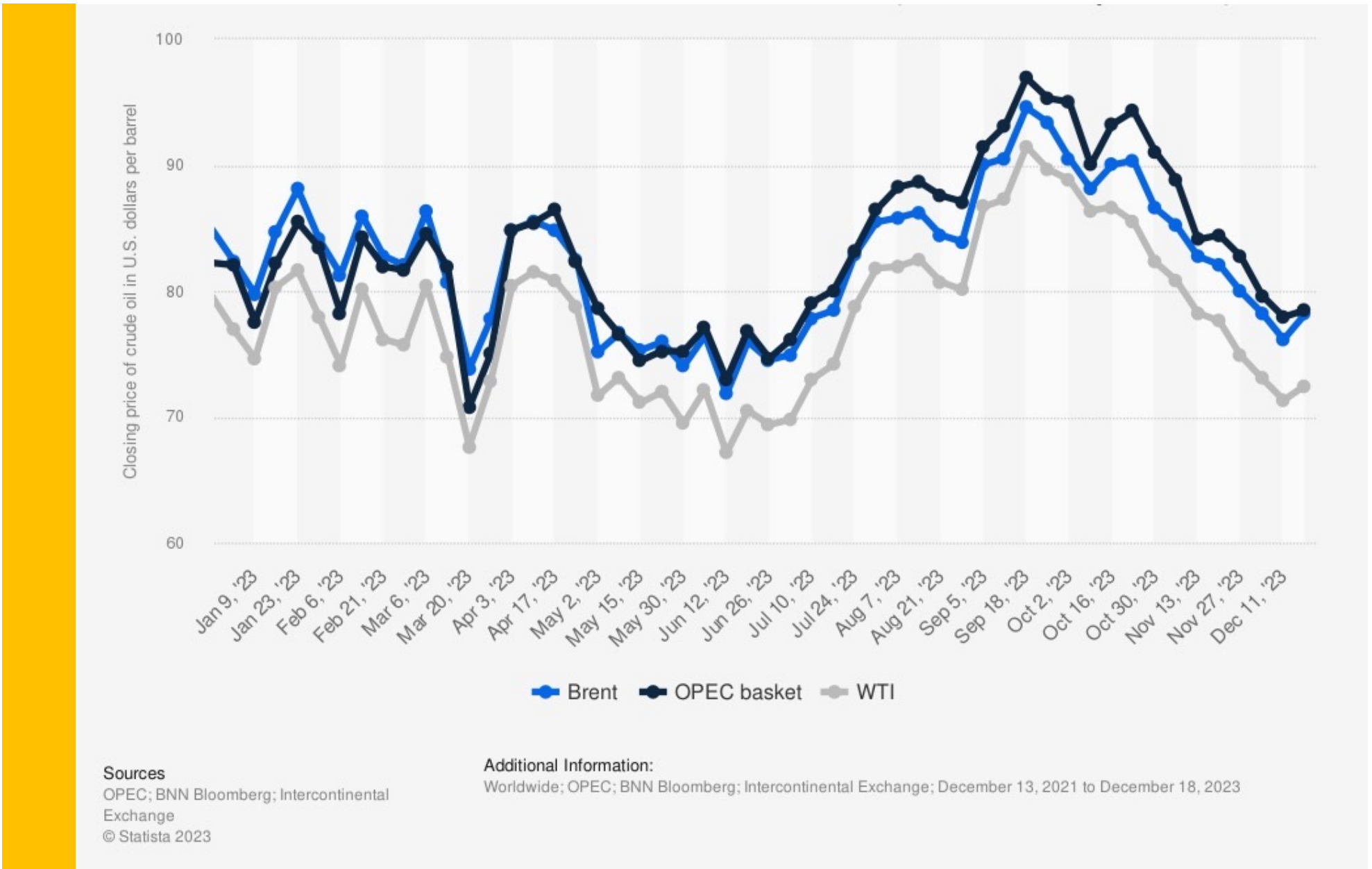
*Dr Tominiyi Owolabi*

Managing Partner, Olaniwun Ajayi LP



# GLOBAL OIL AND GAS TRENDS

## OIL PRICES DATA



2023 commenced with oil pricing at relatively high levels, with Brent crude valued at **\$82.5 per barrel**, fluctuating between **US\$80 to \$88** for a greater portion of the first three quarters, and reaching a high of **US\$98 per barrel** in September 2023.

Nevertheless, this surge proved short-lived, as the price experienced a sharp decline to US\$82 per barrel by November. This represents a drop from the average price of crude oil in 2022 which averaged at US\$94.50 per barrel and peaked at \$139.41 per barrel.

Despite efforts such as supply cuts implemented by OPEC and its allies, along with ongoing conflicts in the Middle East, prevailing concerns regarding economic growth and demand were cited as factors influencing the fluctuation in oil prices.<sup>1</sup>

For Nigeria, the fluctuations in crude oil prices coupled with local dynamics such as shortages in forex and the removal of the subsidy on Premium Motor Spirit (PMS) in May 2023 led to a sharp rise in the price of imported refined petroleum products particularly PMS, with the attendant increase in the cost of transportation as well as goods and services generally. For producers in the Nigerian upstream sector, the increases in the price of crude oil resulted in improved cash flow.

## ISRAEL-HAMAS/RUSSIA-UKRAINE CONFLICTS - IMPLICATIONS TO GLOBAL OIL PRICE VOLATILITY AND ON NIGERIA'S ENERGY SECURITY

“ The ongoing **conflict** between the **state of Israel** and the **Palestinians** has had repercussions on both **oil and gas prices**...

Ripples from Russia's invasion of Ukraine continued to ripple across the energy sector in 2023, with curtailments in Russia's natural gas supply, reduction in the EU's energy consumption by 4.2%, and implementation by the EU of sanctions including embargoes on shipments of Russian crude oil and oil products, amongst others. However, despite the EU's embargoes on crude oil and the price cap, global oil prices have displayed limited volatility.

According to the 2023 Statistical Review of World Energy, the Middle East holds a preeminent position as the foremost global energy producer, representing approximately 48% of verified reserves worldwide and contributing to around 33% of global oil production in the year 2022. Historically, global crude oil prices have been sensitive to political and social tensions in the Middle East. The ongoing conflict between the state of Israel and the Palestinians has had repercussions on both oil and gas prices.<sup>2</sup> In particular, the World Bank has warned that the price of crude oil could potentially rise as high as US\$150 in 2024. While this may lead to higher revenues for companies operating in the Nigerian oil and gas sector, it could also significantly impact the price of refined petroleum products in Nigeria, with a spill-on effect on the prices of goods and services.

## TECHNOLOGY CORNER: 4D SEISMIC TECHNOLOGY AND FUTURE PRODUCTION

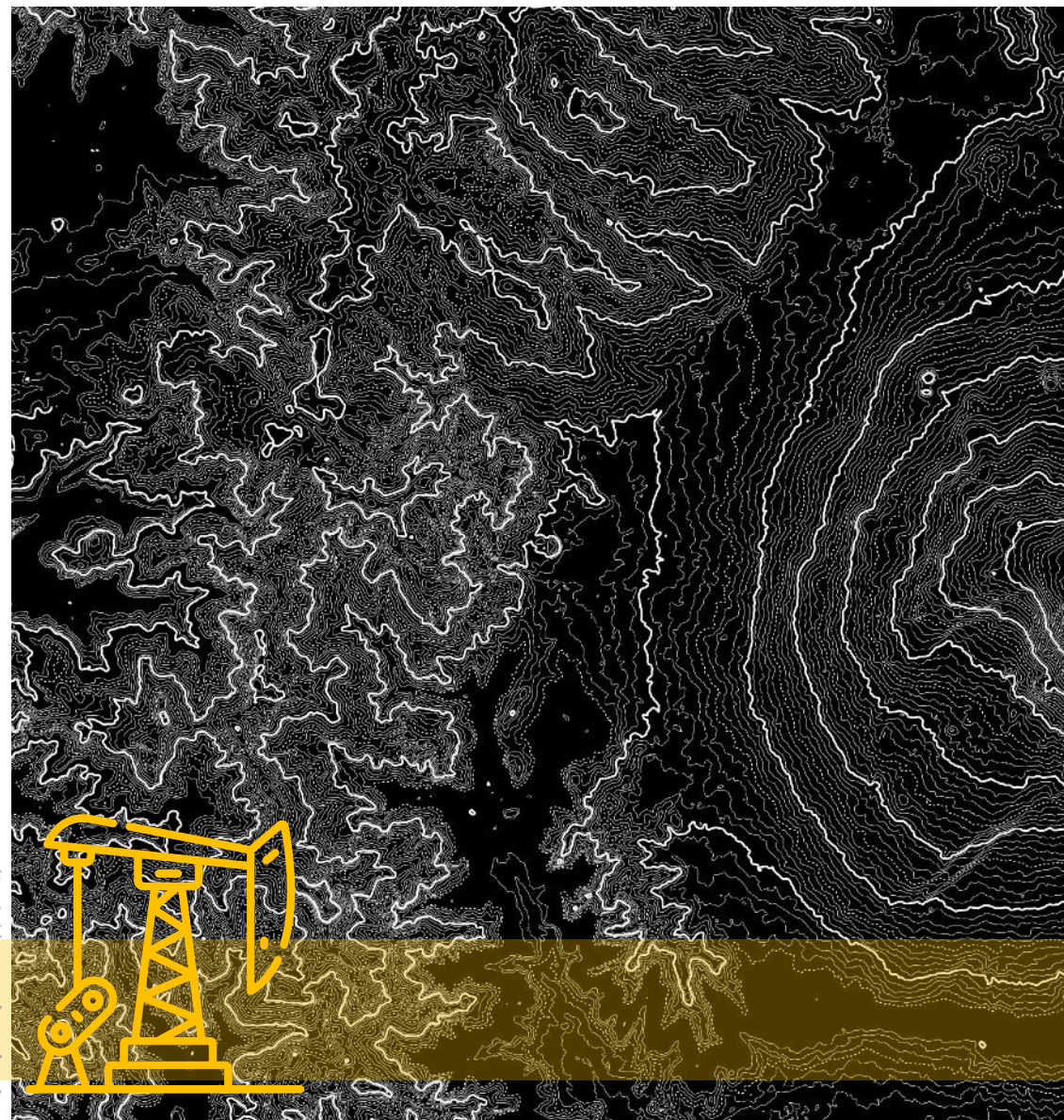
### The Use of Big Data - 4D Seismic Technology

4D Seismic Technology also known as timelapse technology entails repeated 3D seismic surveys conducted at different intervals throughout the life of an oil field. By comparing these surveys, engineers can visualize changes in the reservoir over time. The 4D time, allows for the monitoring of fluid movements, pressure changes, and other dynamic reservoir behaviours. This real-time insight is invaluable in optimizing production and reservoir management strategies.

One of the primary applications of 4D seismic technology is reservoir monitoring. By tracking changes in reservoir properties such as fluid saturation, pressure, and temperature, operators can make informed decisions to maximize hydrocarbon recovery. This technology aids in identifying bypassed reserves, optimizing well placement, and mitigating the effects of reservoir uncertainties.

In May 2023, the global expert in onshore seismic acquisition technology and solutions, Stryde, announced that it has been awarded a contract worth over \$1 million for the supply of 10,000 seismic receiver nodes and its “Nimble” node receiver system in Nigeria.

It is worth mentioning that the NUPRC has continued to urge stakeholders in Nigeria's oil and gas industry to deploy new technologies to leverage big data in order to optimize hydrocarbon recoveries and achieve maximum returns investments.



# GLOBAL ENERGY TRANSITION AND DECARBONIZATION

The Intergovernmental Panel on Climate Change (IPCC), in a synthesis report published in March 2023, stressed the need for rapid and far-reaching transitions across all sectors and systems. While the ripple effects of the COVID-19 pandemic and the Ukraine crisis have compounded the challenges facing energy transition, the need to strengthen energy security in the wake of the crisis, in addition to decarbonisation efforts have driven many governments to push ahead with the deployment of renewable energy.

As anticipated by the International Energy Agency,<sup>3</sup> in 2023, the surge in clean energy investment was spearheaded by renewables, with solar power taking the lead. From a growth of 1.2% in 2023, the EIU has estimated that post-pandemic recovery in energy consumption will accelerate to a growth of 1.8% in 2024.<sup>4</sup> Notwithstanding this potential acceleration, there has been a slow pace across governments in proactively reshaping institutional structures necessary in response to the energy crisis owing to the diverted attention of most countries towards inflation, disruptions of supply chains, food shortages and slow growth. The International Renewable Energy Agency, while pinpointing a barrier to the energy transition, has disclosed that regulatory frameworks continue to be moulded around fossil fuels.<sup>5</sup> As indicated by the World Energy Forum, only 18% of countries have effectively balanced equity, security and sustainability which are the imperatives for an effective energy transition.<sup>6</sup>

Necessary shifts in the established structures for utilizing fossil fuels are essential, yet this could present a considerable challenge for African nations heavily reliant on such energy source, thus underscoring the IEA findings that the increase in clean energy spending in recent years is impressive but heavily concentrated in a handful of countries. Considering the imperative to accelerate the global expansion of the energy transition, innovative tools may be required to ensure countries with limited investments are able to access long-term advantages of the energy transition without impeding their economic growth.

The 28<sup>th</sup> Conference of the Parties (COP28), which took place in the UAE from 30 November to 12 December 2023 emphasized the imperative to phase out inefficient fossil fuel subsidies across the four pillars of:<sup>7</sup>



The COP28 culminated in the inaugural Global Stocktake which highlights the means of implementation and support to be finance, technology transfer and capacity building.<sup>8</sup> While parties' resolutions stressed the acceleration of energy transition in a 'just, orderly and equitable' manner, the impact on nations dependent on fossil fuels are far-reaching as a rapid shift may leave such nations with stranded assets. In the Nigerian context, contribution of crude oil to the country's GDP holds immense weight, thus, revenue from oil to finance government budgets faces potential disruption, posing challenges in budgetary management and the risk of fiscal deficits.

While the period subsequent to COP28 is anticipated to be crucial for endeavours aimed at mitigating climate change and realizing the sustainable development goals articulated in the 2030 Agenda, an anti-fossil fuel energy transition without consideration for the needs of developing nations, may cause detrimental impacts on Africa's economies.



# THE NIGERIA OIL AND GAS SCENE

## CRUDE OIL PRODUCTION PEAKS AT 1.351 MILLION BARRELS PER DAY (MBPD) IN OCTOBER 2023

According to data from the Organization of Petroleum Exporting Countries (OPEC), Nigeria recorded an all-year high of 1.351 mbpd as average output in October 2023, representing an increase from the 1.347 mbpd recorded for the previous month. Nigeria has struggled to meet the 1.74 mbpd quota set by the OPEC, with factors such as crude oil theft, crippling security challenges (particularly in the Niger-Delta region), infrastructure deficit, changes in the global oil market dynamics amongst others, responsible for Nigeria's failure to reach its production potentials. Commendably, the new government has taken proactive steps in addressing some of these problems, especially the curtailment of asset vandalism and other illegal activities which have led to a remarkable improvement in the operating environment. Overtime, these efforts have translated into a substantial increase in daily oil production after it fell to an all year low of 999,000 bpd at the twilight of the previous administration in April 2023.



## PROGRESS OF THE 2020 MARGINAL FIELD AWARDS

Following the award of marginal fields to awardees in 2023, unlocking financing for the development of the assets remains a key issue for awardees of the marginal fields. To accelerate the development of the assets, the Nigerian Upstream Regulatory Commission (NUPRC), initiated a production-based lending, aimed at fostering strategic alliances between awardees, financial institutions and E&P service providers.

The E&P service providers will provide services on a service fee basis, and recover from production garnered from the field. Other measures initiated by the NUPRC includes the revision of Extended Well Test (EWT) Guideline, aimed at facilitating data gathering and accelerating the production of first oil. This latter measure has recorded a measure of success, with about sixteen companies submitting Field Development Plans (FDPs), two commencing unitization, six re-entries and two having gone through EWT.

## PETROLEUM EXPLORATION LICENSE

The first of Petroleum Exploration Licenses (PEL) under the PIA was issued by the NUPRC to TGS-Petrodata Offshore Services Limited in 2023. The issuance of the PEL is significant as it would attract new investments, lead to the availability of new 3D seismic data offshore, unlock oil and gas reserves within the ultra-deep offshore frontier basins and lead to new opportunities and increased output.

Title to data, whether raw or interpreted, and obtained on account of the PEL, is vested in the NUPRC, though the PEL holder is entitled to grant a data use license to a third party subject to the written authorization of the NUPRC which of course, is not to be unreasonably withheld.





## DEEP OFFSHORE MINI BID ROUNDS

In December 2022, the NUPRC announced the Mini Bid Rounds (MBR), stating that “it was an opportunity to spur new exploration and drilling activities in the prospective deep waters offshore Nigeria”. The MBR, according to the NUPRC, is the first in a series of bid rounds and aimed at further development of the prospective petroleum basin and is underpinned by high-quality datasets.

The MBR, offered seven (7) Offshore blocks covering approximately 6700km<sup>2</sup> in water depths of 1,150m to 3,100m. According to the NUPRC’s Chief Executive Officer, Gbenga Komolafe, “the bid rounds are a clarion call to technically and financially capable local and foreign investors to invest and take advantage of the new regulatory and fiscal framework in the Nigerian Petroleum Industry.

It is worth noting that the process is ongoing and the preferred bidders of the mini-bid rounds are yet to be unveiled by the NUPRC.



## NATIONAL GAS FLARE COMMERCIALIZATION PROGRAMME

In the continued drive to eradicate gas flaring and deepen gas utilization in the country, the Federal Government relaunched the Nigerian Gas Flare Commercialization Programme (NGFCP). Further to the NGFCP, the NUPRC announced the outcome of the bidding exercise and issuance of letters of award to 42 firms deemed successful in the bid for 49 flare sites. Thirty-eight (38) companies were awarded 40 flare sites for standalone single flare sites development, while the other four were awarded nine sites to be developed as clusters. Reserve bidder status has also been accorded some of the bidders for the flare sites, in the event that the preferred bidders fail to meet the terms and conditions stipulated in the Request for Proposal.



## WHOLESALE GAS SUPPLY LICENSE

The issuance of the Wholesale Gas License for 500 mmscfd by the Nigerian Midstream and Downstream Regulatory Authority (NMDPRA) marked an important milestone in the natural gas value chain. The license, which was granted to Ohuru Trading, authorizes the holder to directly purchase gas from a lessee or third party for sale to wholesale customers and gas distributors anywhere in Nigeria. Wholesale gas licenses have the potential to drive investments in gas infrastructure and attract foreign direct investments, consistent with the “Decade of Gas” initiative of the Federal Government of Nigeria.<sup>9</sup>

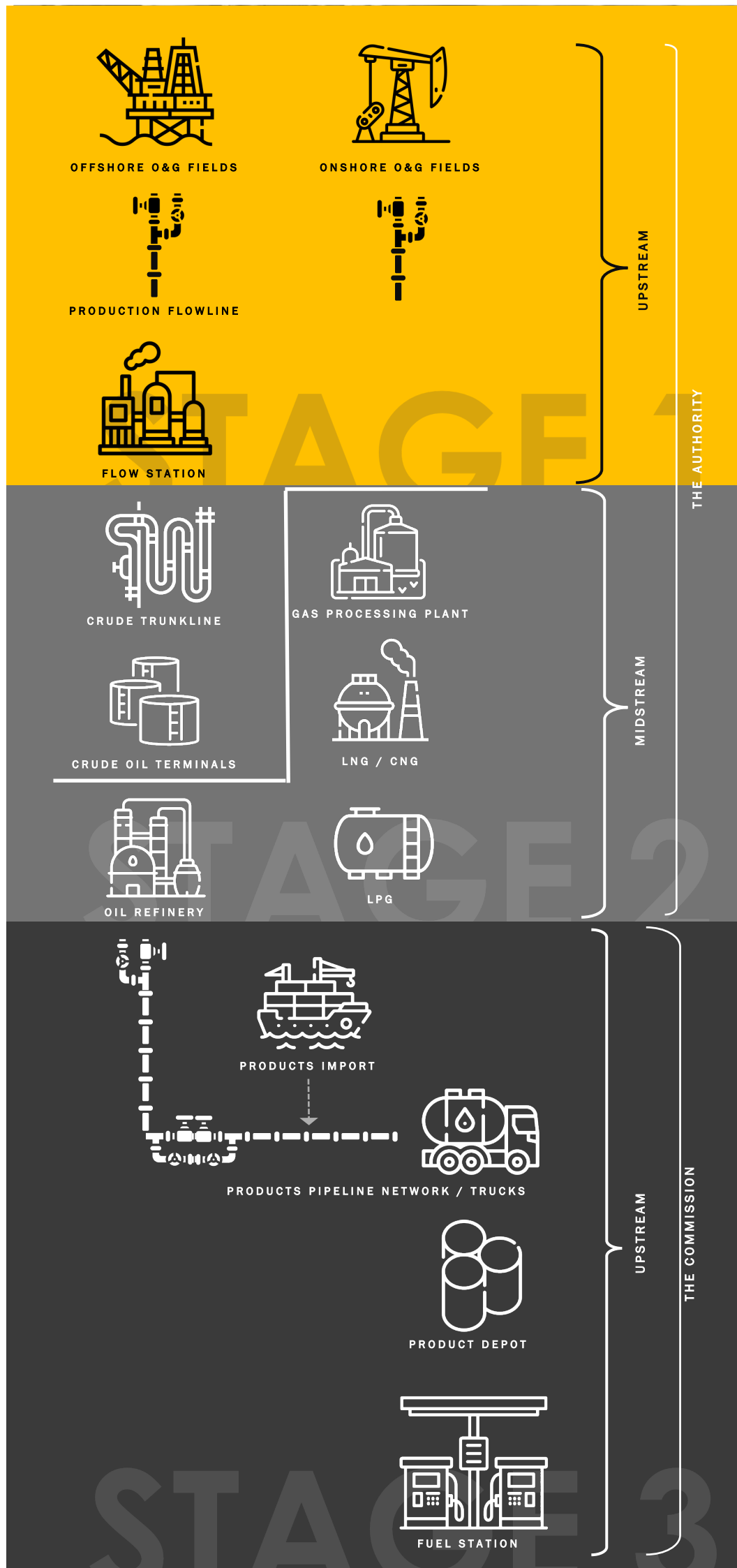


it was an opportunity to spur new exploration and drilling activities in the prospective deep waters offshore Nigeria”.





# REGULATORY DEVELOPMENT AND POLICIES IN 2023



With the passage of the PIA, there have been far-reaching changes in the legal and regulatory landscape of Nigeria's oil and gas industry. Expectedly, the two key regulators (the NUPRC and the NMDPRA) have each issued diverse subsidiary legislation - regulations, guidelines, directives etc., which further clarify aspects of the principal legislation and spell out details relating to implementation. Whilst most of the regulations and guidelines can be accessed on the websites of the agencies, we have set out in Appendix 1 of this Report, a high-level synopsis of some of the key regulations and guidelines.

As of the date of this Report, other regulations are currently being contemplated, with exposure drafts issued by the NUPRC and NMDPRA, on matters such as the assignment of interests in an upstream licence or lease, administration of petroleum development contracts relating to upstream petroleum operations, procedure for the revocation of a licence or lease either in part or whole, Third-Party access to facilities, infrastructure, and services in the Nigerian midstream and downstream petroleum industry, submission, collection and management of technical and commercial data in Nigerian midstream and downstream petroleum industry, etc.

Further regulatory developments worthy of mention are in respect of the Host Communities Development Trust (HCDT) mandated under the PIA and the relevant HCDT regulations. International Oil Companies (IOCs) are implementing HCDT in compliance with the PIA. Some of these IOCs include Shell Petroleum Development Company (SPDC) which inaugurated eight HCDTs in Bayelsa in compliance with the PIA in May of 2023. In the same vein, Mobil Producing Nigeria Unlimited (MPN), a subsidiary of ExxonMobil and operator of the Nigerian National Petroleum Company Limited (NNPC)/MPN Joint Venture followed suit by inaugurating two HCDT covering its OMLs in Akwa Ibom State in July of 2023.<sup>10</sup> However, one of the challenges identified by operators, which continue to undermine their compliance with HCDT obligations, include lack of clear guidelines on the selection and appointment of persons into the board of trustees as well as other relevant bodies related to the HCDT under the PIA.





## THE PRESIDENTIAL DIRECTIVE ON DELINEATION OF REGULATORY OVERSIGHT BETWEEN NUPRC AND NMDPRA PENDING AMENDMENT OF PETROLEUM INDUSTRY ACT 2021

In June 2023, the President of the Federal Republic of Nigeria issued a directive on delineation of regulatory oversight between the NUPRC and the NMDPRA in relation to the regulation of terminal operations and the export of crude oil pursuant to sections 7(ee), 8(d) and 32 of the PIA, pending a formal amendment of the PIA. This was seemingly necessitated by perceived regulatory ambiguity in relation to the regulation of integrated petroleum facilities and existing crude oil export terminals under the PIA. Key highlights of the directive include ceding to the NUPRC, exclusive regulatory powers over integrated upstream and midstream petroleum operations, which will now be considered upstream petroleum. The NUPRC was also vested with the powers to designate a facility as an integrated facility pursuant to guidelines and criteria to be established by NUPRC. On the other hand, the NMDPRA would exclusively regulate technical and commercial aspects of petroleum operations and facilities from the exit of the crude export terminals and the entry gate of the natural gas processing plant.

Despite the noble objectives of the directive in seeking to clarify the regulatory ambiguities, there have been lingering concerns around the legal effect of the directive vis-à-vis the delineation of regulatory powers under the PIA.

## CRITICAL INFRASTRUCTURE DEVELOPMENT IN 2023 AND IMPLICATION TO THE INDUSTRY



### OBIAFU-OBRIKOM-OBEN (OB3) GAS PIPELINE

The Obiafu-Obrikom-Oben (OB3) Gas Pipeline is a 48" x 127-kilometre natural gas pipeline, running from the Obiafu-Obrikom gas plant near Omuku, Rivers State to the Oben node in Edo State, Nigeria. The estimated capacity of the gas treatment plant associated with the OB3 Gas Pipeline is about 2 billion scf/d, and would rank upon completion, as one of the largest transmission pipelines in Nigeria and Africa (by pipe size).

The construction of the OB3 Gas Pipeline began in 2013 and was initially slated for completion in Q4 2018. However, this completion date has been extended several times between 2018 and 2021 and now to December 2023. These extensions have been attributed to several factors, including adverse weather conditions (flooding and continual rainfalls in areas of operation) and COVID-19.

The completion and operation of the OB3 pipeline will impact commercial use and domestic gas utilisation. The OB3 Gas Pipeline will make gas available to petrochemical manufacturers and increase the availability of petrochemicals for domestic consumption and export, leading to less reliance on fossil fuels and more on gas. Its completion serves as a condition precedent for the final investment decision of some crucial gas projects. It provides substitutive links to the Nigerian Southwest whenever the Escravos Lagos Pipeline system fails. It will also accelerate economic growth.

### TRAIN 7/8 NIGERIA LNG LIMITED

NLNG Train 7 being built by NLNG to complement the gas production capacity of trains 1-6 and boost the capacity of the NLNG gas production from 22 mtpa to 30 mtpa. is currently ongoing with vital developments made in 2023.



## STATUS OF THE NIGERIA-MOROCCO GAS PIPELINE PROJECT

In our [2022 Report](#), we reported on the landmark Nigeria-Morocco Gas Pipeline (**NMGP**) project which was initiated in December 2016 through a strategic agreement between the NNPC Limited and Moroccan Office. In the previous year, six Memoranda of Understanding were signed in relation to the project. However, the scope of the project has been expanded as four additional countries (Coted d'Ivoire, Liberia, Guinea and Benin are now participating countries in the project. As at 16 June 2023 the Front-End Engineering Design Phase II Study of the project had surpassed the 70% completion mark, particularly in the survey tendering process.<sup>11</sup>

## CONSTRUCTION OF US\$500 MILLION GAS STORAGE FACILITY

On the 6th of November 2023, Masters Energy Oil & Gas Limited (**Masters Energy**) officially declared the commencement of the construction of a gas storage facility in Port Harcourt, Rivers State estimated to be worth about US\$500 million. The project encompasses the establishment of a 20,000 metric tonnes gas storage facility (designed not only for the reception and dispensing of circa 28,000, cubic per metres of Liquefied Petroleum Gas (**LPG**) but also for 12,000 cubic per metres of Propane), approximately 200 gas refilling outlets, around 2000 retail gas exchange outlets, bulk distribution trucks for LPG transportation, and a specialized vessel for coastal operations.

This project, set to unfold, aims to foster economic growth by generating employment opportunities and positively impacting the economic landscape of the communities in which it operates. The uniqueness of this project lies in the efforts to integrate household and industrial gas infrastructure, a groundbreaking effort by Masters Energy.

Notably, the project goes beyond mere gas storage; it envisions the establishment of ancillary businesses within the oil and gas ecosystem, thereby contributing to a more dynamic and interconnected industry. In essence, this project signifies not only a significant investment in gas infrastructure but also a strategic move towards holistic industry development. Upon completion, the project is expected to leave an indelible mark in the Nigeria's energy landscape, promote economic transformation and innovation within the oil and gas sector

## THE FLOATING LIQUEFIED NATURAL GAS PROJECT

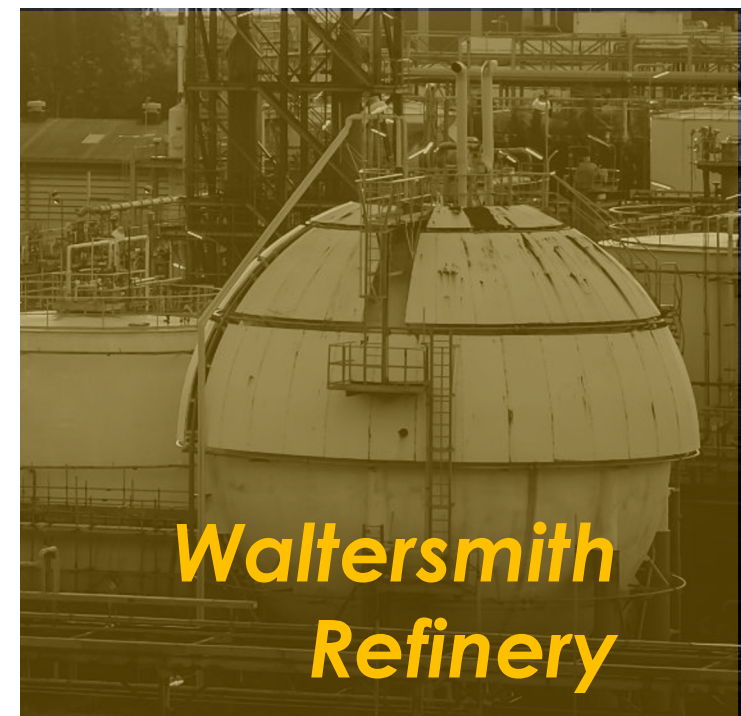
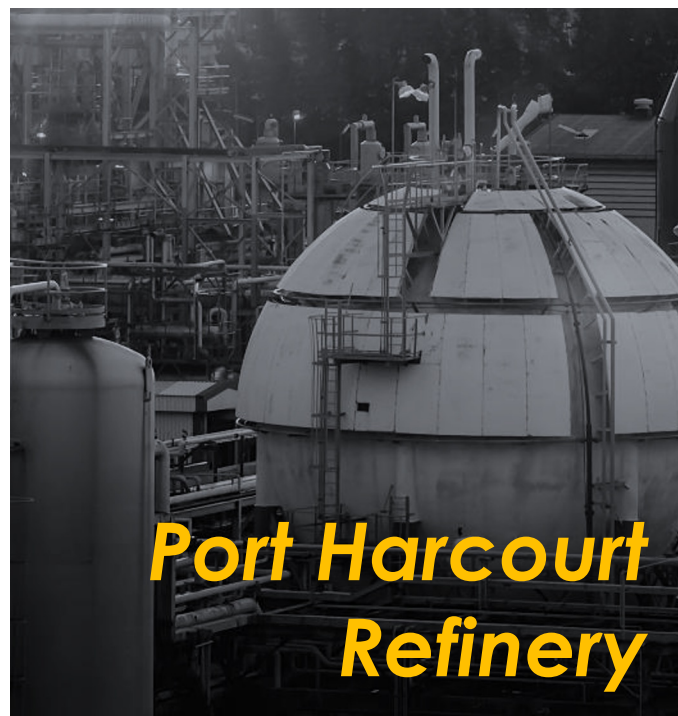
On the 27 April 2023, NNPC Limited entered into a memorandum of understanding with Golar LNG, a Norwegian entity, for the construction of a floating liquefied natural gas (**FLNG**) plant in Nigeria. The intended offshore facility is designed to extract liquefied natural gas (**LNG**) from Africa's largest natural gas reserve. The FLNG plant will be positioned offshore in Akwa Ibom State at a water depth of approximately 60 meters. Z

It has been reported that Afreximbank will be facilitating the project's financing, with financial closure anticipated in Q4 2023.

Projections indicate that the project will yield an annual production of 300,000 tons of LPG and generate 7,000 employment opportunities for Nigerian citizens as comprehensive training for citizens in the operation and management of the plant upon its commencement being embarked upon.<sup>12</sup>



## REFINERIES



On 22 May 2023, the Dangote Refinery was inaugurated as the first indigenous refinery in Nigeria.<sup>13</sup> Subsequently, on 8 December 2023, it was reported that the first batch of 1 million barrels of crude oil was delivered to Dangote Refinery by Shell International Trading and Shipping Co,<sup>14</sup> Again, on 20 December, Dangote Refinery received its second batch of 1 million barrels of crude oil from NNPC Limited.<sup>15</sup>

As at 29 December 2023, Dangote Refinery had received a total of 3 million barrels of crude oil and it is projected that Dangote Refinery will commence the refining of diesel and aviation fuel by mid-January 2024.<sup>16</sup>

In 2023, the rehabilitation project of the Port Harcourt Refinery (the oldest and the biggest of the three government-owned oil refining sites in Nigeria)<sup>17</sup> which had commenced in 2021, achieved a milestone.

As at 15 December 2023, it was reported that 84.4% of Area 5 Plant, a key component of the Port Harcourt Refinery, and 77.4% of the entire rehabilitation project have been completed.<sup>18</sup>

It was further reported that the Port Harcourt Refinery was undergoing test run operations to ensure readiness for commercial operations to commence subsequently.<sup>19</sup>

In 2023, the development of Phase 2 of the biggest commissioned modular refinery in Nigeria continued with the completion target being Q2 2025. The focus of the development is to expand the capacity of production from 5,000 bpd to 10,000 bpd with the capacity aim for this project being 40,000 bpd.

On 21 November 2023, the Minister of State for Petroleum Resources visited the Refinery to determine the progress being made with promises of support from the Federal Government.



# ALTERNATIVE FINANCINGS, DIVESTMENTS, M&A ACTIVITIES IN THE INDUSTRY IN 2023

## MERGERS & ACQUISITION IN THE INDUSTRY

One of the key trends in Nigeria's upstream sector over the last couple of years has been the spate of divestment of upstream assets. Worthy of mention in 2023 includes



### The San Leon proposed Divestment<sup>20</sup>

San Leon Energy Plc, a European energy company, commenced the process for inter alia the sale of its shares in Decklar Petroleum Limited



### the ENI Divestment<sup>21</sup>

In September 2023, the Italian multinational energy company Eni, announced the execution of a share purchase agreement with Oando Plc for the sale and purchase of its shares in its Nigerian onshore E & P subsidiary, Nigerian Agip Oil Company Limited



### Sendje Berge FPSO<sup>22</sup> and Abo FPSO Acquisition<sup>23</sup>

BW Offshore, a Norwegian service provider, announced the acquisition of its Sendje Berge FPSO and Abo FPSO by the Century Energy Group and STAC Marine Offshore Limited respectively in July 2023 and September 2023

The economic impact of the divestments in the upstream oil and gas sector is already starting to unravel, with the NUPRC announcing in September 2023, that the country's total annual upstream CAPEX decreased by 74% from US\$27 billion in 2014 to less than US\$6 billion in 2022.<sup>24</sup> Nigerian NGOs have also demanded for the imposition of a moratorium on further divestments in upstream assets given that US\$21 billion worth of assets have been divested to indigenous companies in recent times.<sup>25</sup> On a positive note, the Nigerian government announced that it anticipates that certain IOCs and indigenous oil companies will invest US\$13.5 billion in oil and gas projects in the coming years<sup>26</sup>

## EQUINOR DIVESTMENT FROM NIGERIA

Norwegian energy giant, Equinor announced in November 2023, the transfer of its Nigerian business, including its interest in the Chevron operated Agbami Oil Field to indigenous outfit, Chappal Energies. The agreement will see Equinor transfer sell its interest in Equinor Nigeria Energy Company (ENEC) which holds a 53.58% interest in OML 128 and a unitized 20.21% interest in the Agbami field. According to Equinor, the transaction "realizes value" and aligns with the Company's "strategy to optimize its international oil and gas oil and gas portfolio and focus on core areas"

The Divestment, although subject to the parties obtaining relevant regulatory and contractual approvals, brings an end to the company's presence in the Nigerian Oil and Gas market that has spanned over three decades. For Chappal Energies, the acquisition expands its resource portfolio and enhances the company's influence in the local market. For Nigeria, the deal signifies a continued shift towards local participation, fosters self-reliance and promotes sustainable development.

## FINANCING

In Q1, the Nigerian Bureau of Statistics reported that Nigeria's oil and gas sector attracted only US\$750,000 in Q1 2023 and \$0 in Q2 2023.<sup>27</sup> Despite the decreased investments in the Nigerian oil and gas sector, there were still some notable financing activities especially in relation to the gas sector. Afreximbank executed a 7-year loan agreement to fund the construction of a 20 million standard cubic feet/day gas processing facility by Alphaden Energy & Oilfield Limited.<sup>28</sup> Also, Afreximbank also executed a facility agreement with UTM Offshore Limited to part-finance the construction of a FLNG facility in Akwa Ibom state.<sup>29</sup> Further, a number of Nigerian banks agreed to restructure the NGN108.3billion medium term loan to Oando Plc. in order to increase the overall commitment to MGM115.3billion, extend the loan's maturity date among other matters.<sup>30</sup>

In order to address the macro and micro economic impact of the decline in oil and gas investments, some oil and gas companies are exploring avenues to revive investments including structuring alternative forms of investments such as the use of pre-export financing.<sup>31</sup>



# ENERGY TRANSITION IN NIGERIA - 2023 RECAP

In our [2022 wrap-up report](#), we spotlighted the Nigeria Energy Transition Plan (ETP) and identified its core framework and ambitious objectives for Nigeria to attain universal energy access by 2030, and a carbon-neutral economy by 2060. Over the course of 2023, the President Bola Tinubu-led administration has kept the pace of Nigeria's energy transition journey, courtesy ambitious policy reforms such as the removal of petrol subsidy, the launch of the Presidential Compressed Natural Gas Initiative as well as strategic partnerships with state parties and corporate entities alike aimed at securing a sustainable energy future for Nigeria.

These strategic partnerships were a recurring theme at COP28 where President Bola Tinubu emphasized, among other things, the need for a just and fair energy transition by African countries. In the context of energy transition in Nigeria, a cursory list of some of the notable outcomes of Nigeria's attendance at the recently-concluded COP28 includes:

01

the unveiling of the Nigerian Carbon Market Activation Plan by the President;

02

the signing of an accelerated performance agreement between the governments of Nigeria and Germany on the implementation of the Presidential Power Initiative (PPI) to improve electricity supply in the country;

03

the signing of a US\$150million deal with Shezen Lemi Technology Development Company of China, for the establishment of a lithium-ion battery manufacturing and processing factory from Q2 2024; and

04

the signing of a circa US\$1billion Memorandum of Understanding (MOU) between the Cross River state government and Oando Clean Energy Limited for the provision of mass transportation electric vehicles in the state, towards the attainment of Nigeria's 2060 Net Zero target.





# SUBSIDY REMOVAL AND FOREX UNIFICATION



...a significant increase of **9.32%** was recorded in the market capitalization of the Nigerian Stock Exchange...

Beyond the inevitable impact of subsidy removal and the naira float in Q2 2023 on affordability of PMS and the attendant cost-push inflation, there were positive reactions in the stock market to these audacious policy moves, with deregulation and forex unification seen as pro-market policies. For example, in June 2023, following the deregulation, a significant increase of 9.32% was recorded in the market capitalization of the Nigerian Stock Exchange – the best monthly performance for the stock market in approximately two and a half years.

Notably, the International Energy Agency (IEA) has maintained that fossil fuel subsidies are a roadblock to a sustainable energy future because subsidies encourage excess consumption of fossil fuels. It therefore follows that where energy security is put in the context of the campaign for decreasing usage of fossil fuels and the broader conversation on energy transition into a sustainable future, there is room to posit that Nigeria will be better off in the long run.

Ultimately, the realisation of the projected benefits of these policy changes will depend, at least in part, on factors such as the operationalization of the 650,000bpd Dangote Refinery in 2024, rehabilitation of some of the existing State-owned refineries, transparent pricing mechanisms attributable to unfettered operations of market forces, increase in upstream production and effective social safety nets for vulnerable Nigerians.

# PRESIDENTIAL COMPRESSED NATURAL GAS INITIATIVE

The Presidential Compressed Natural Gas (CNG) Initiative (PCNG Initiative) was set up in Q3, 2023 as part of the Government's broader policy initiatives to deepen gas utilization and reduce dependence on refined petroleum products. For Nigeria, CNG plays a key role in Nigeria's energy transition, being a cleaner energy source and a cost-efficient alternative to PMS. Some of the strategic objectives of the PCNG Initiative include:

1

supporting States to onboard new CNG buses as part of their intrastate mass transit network;

2

deploying new financing programmes for operators via an innovative asset finance scheme;

3

encouraging investments in CNG processing, distribution and utilization through incentives aimed at enhancing investor appetite in the CNG space; and

4

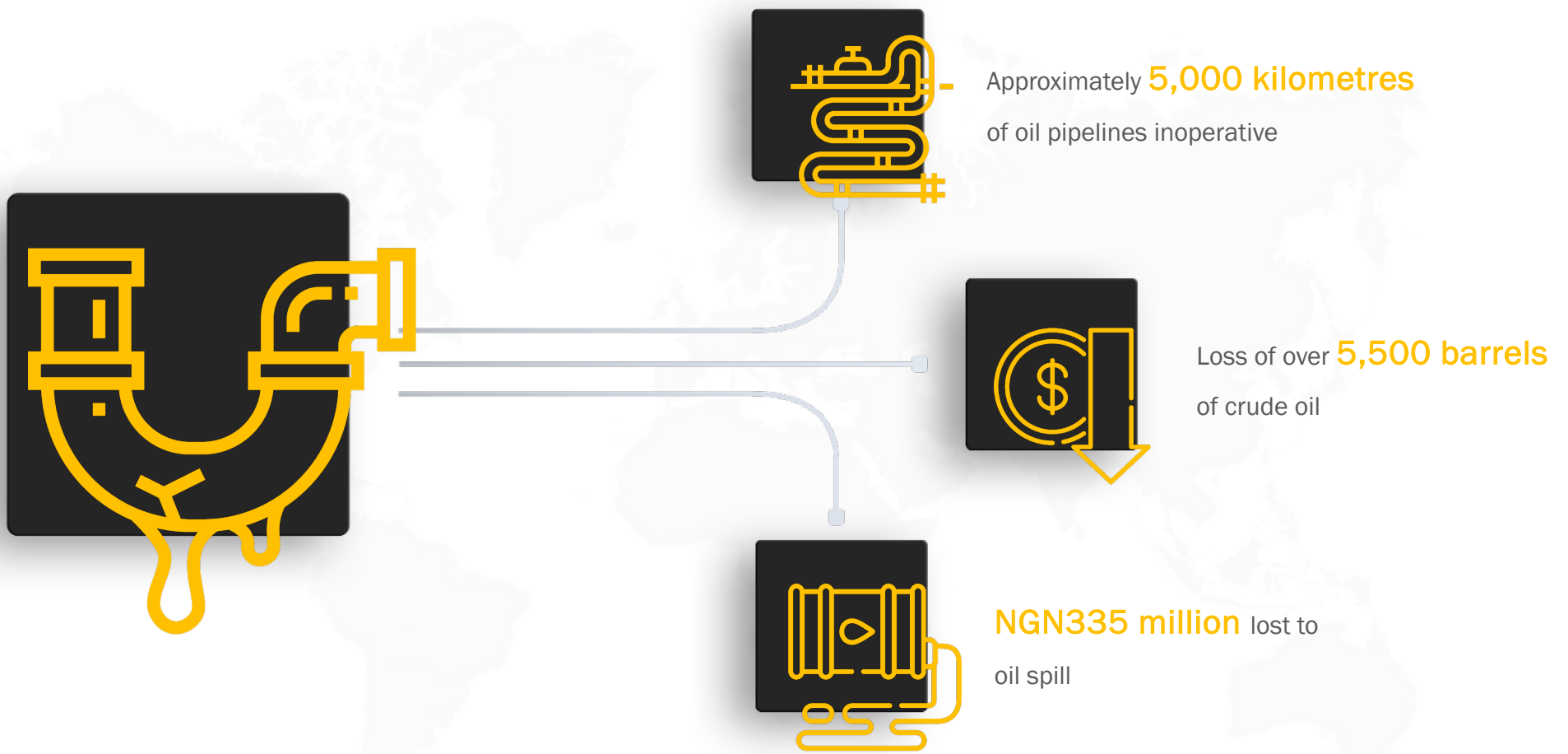
delivering trainings and technology transfer to support the after-sales services and maintenance sub-industry as an aftermath of deploying CNG, thus creating an estimate of over 50,000 'sustainable jobs.'

To drive the implementation of this initiative, NNPC Limited has announced partnerships with companies such as Nipco Plc. for CNG delivery to Nigerians. The collaboration aims to establish 35 state-of-the-art CNG stations nationwide, catering to over 200,000 vehicles daily and subsequently lowering transportation costs. Strategic partnerships like this align with the broad goal of the PCNG Initiative to provide over 11,500 new CNG-powered vehicles (and over 1 million CNG-powered vehicles by 2027) as well as 55,000 CNG conversion kits for existing PMS-dependent vehicles.

Though the PCNG Initiative is not without drawbacks such as the significant capital investment required and extant infrastructure deficit, we anticipate more investor activity in the CNG space in 2024 as Nigeria joins the league of African nations like Egypt, that ride on CNG in charting a sustainable energy future.

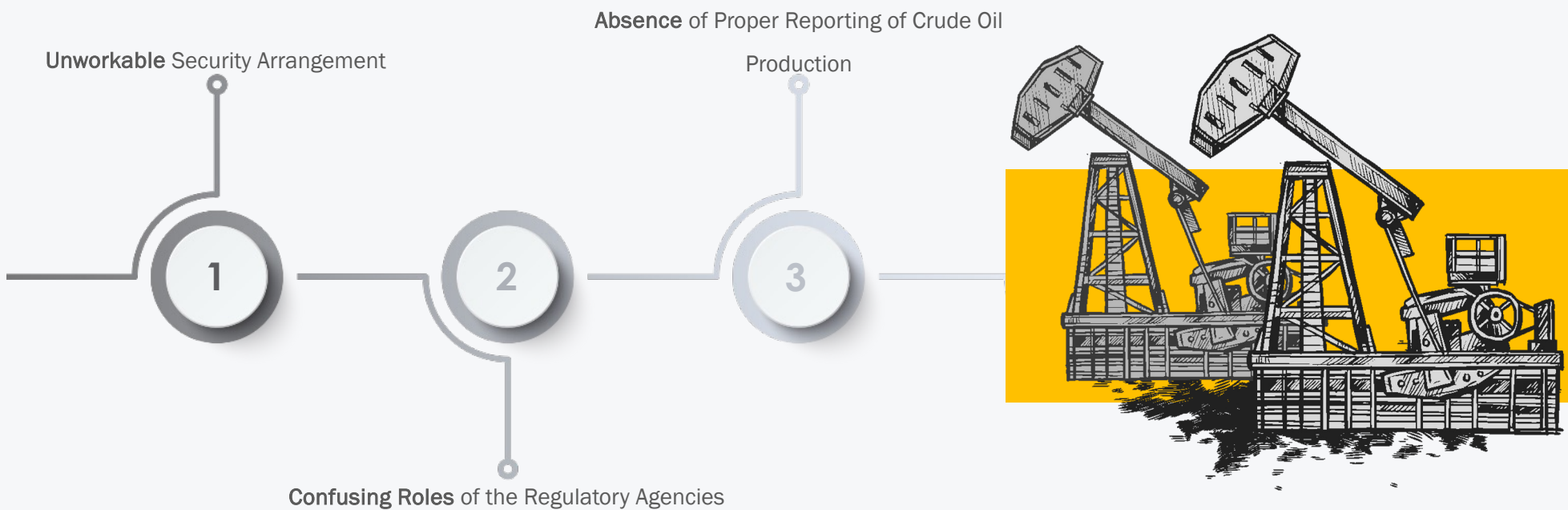


# SECURITY, PIPELINE VANDALISM AND IMPACT ON PRODUCTION



Pipeline vandalism in Nigeria has evolved into a national crisis with the GCEO of NNPC Limited expressing concern about approximately 5,000 kilometres of oil pipelines being inoperative due to vandalism. The National Oil Spill Detection and Response Agency (NOSDRA) also disclosed that, from January to August 2023, the instances of oil spillages in the country which are significantly attributable to pipeline sabotage and crude theft, led to a loss of over 5,500 barrels of crude oil totalling an estimate of NGN335 million lost to oil spill.<sup>32</sup>

The Special Investigative Panel on Oil Theft which was inaugurated in 2022 unveiled in its report during the first quarter of 2023 that losses in crude oil are also attributable to:



While the authorities have revealed that an industry-wide security collaboration had helped to avert many illegal operations on crude oil and products pipelines,<sup>33</sup> in the continuous search for solutions to the challenge, the executive secretary of the Nigerian Extractive Industries Transparency Initiative (NIETI) recommended that the government assemble a reliable team to create an implementation plan, including methods and timelines, for implementing the report.

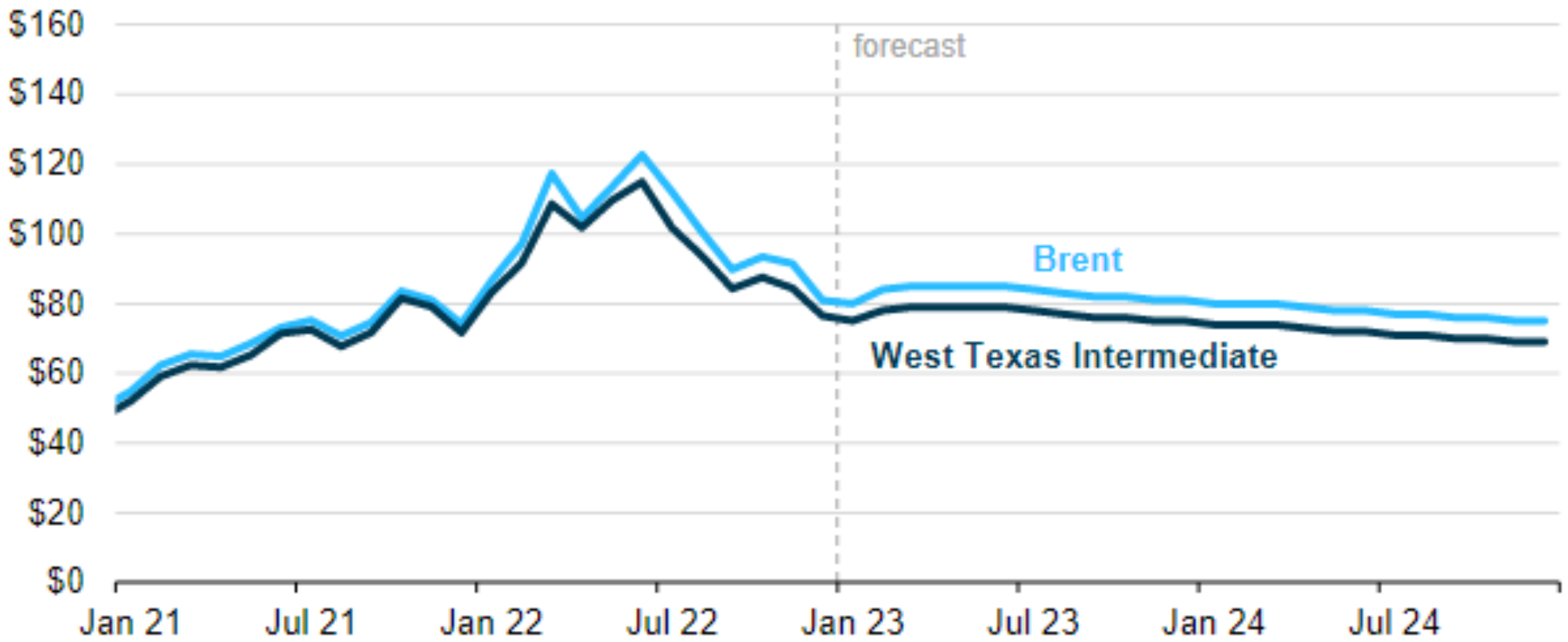




# FORWARD LOOK

Monthly average crude oil spot prices (Jan 2021–Dec 2024)

dollars per barrel



## GLOBAL CRUDE OIL AND GAS MARKET

The Asset and Wealth Management Investment Strategy Group (ISG) at Goldman Sachs forecasts a barrel of crude oil to trade between \$70 to \$100 in 2024. The World Bank on the other hand expects global oil prices to average \$81 in 2024,<sup>34</sup> although warns that an escalation of the Israel-Hamas conflict could see prices surge. Also, the International Energy Agency (IEA) projects demand growth to slow down in the new year, citing “lacklustre macroeconomic conditions, a post-pandemic recovery running out of steam and the burgeoning use of electric vehicles.”

However, with the recent announcement by OPEC+ members to carry out voluntary cuts to production totalling around 2.2 million bpd for the first quarter of 2024, global oil prices could rise above \$100 provided members fulfil their pledge to cut. Leading the charge in this regard is OPEC’s largest member, Saudi Arabia which has pledged to extend its voluntary production cut of 1 million bpd until the end of the first quarter of 2024. Russia, Iraq, the United Arab Emirates and Kuwait have also followed suit, pledging to cut production by 300,000, 223,000, 163,000 and 135,000 bpd respectively.

With no end in sight to the Russia-Ukraine crisis, it is expected that the West will continue to explore further investments in oil and gas producing countries in Africa and the Gulf to bump up production levels to meet increasing energy needs. Precisely, the EU currently imports 14% Liquefied Natural Gas from Nigeria and reports in the international oil and gas market indicate that the bloc could double this figure in 2024.



## COP28 AND CLIMATE FINANCE

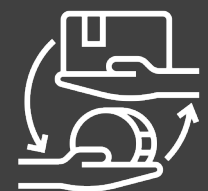
Following the prominent role of climate finance in the recently concluded COP28, significant developments have emerged. Firstly, the Green Climate Fund (GCF) garnered substantial support in its second replenishment, with six countries committing fresh funding. This bolstered the GCF's financial standing to a historic USD 12.8 billion. Secondly, the Least Developed Countries Fund and Special Climate Change Fund witnessed an increase in commitments, surpassing USD 174 million from various donor governments. Thirdly, the Adaptation Fund saw new pledges totaling nearly USD 188 million.

While these financial contributions may be perceived as modest in the grand scheme, they signal a promising shift towards backing the conversation on carbon emission reduction with tangible financial support. Looking ahead to 2024, there is an optimistic outlook for concrete actions to consolidate the loss and damage fund. The trajectory set at COP28 suggests a growing commitment to addressing climate challenges through substantial financial backing.



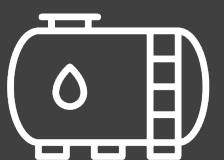
## INCREASED REFINING CAPACITY

With the Dangote and Port Harcourt refineries expected to commence operations in the first quarter of 2024, we expect Nigeria to become the hub for petroleum refinery business in Africa. Whilst the Dangote refinery boasts a refining capacity of 650,000 bpd, the Port Harcourt refinery is expected to contribute 60,000 bpd following the completion of the initial phase of its three-part rehabilitation. Also, the concurrent revival of the Warri and Kaduna refineries, both of which are expected to become operational later in 2024, adds an additional layer of strength to Nigeria's refining position.



## DIVESTMENTS

2023 witnessed a flurry of divestments in the industry, especially as we saw oil majors divest from non-core assets in mature production basins. As we look ahead to 2024, the forecast remains indicative of a continuation of this trend. As we step into the new year, these entities are likely to evaluate their asset portfolios rigorously and divest from ventures that no longer align with their overarching business strategies.



## PRODUCTION VOLUMES TO REPLACE SIGNATURE BONUS

The NURPC has announced a new arrangement and approach where the government will rather than take upfront payments as signature bonuses from awardees, take production volumes from awardees upon commencing production. This innovative approach is anticipated to enhance the appeal of the upcoming bid round, positioning awardees to achieve first oil more expeditiously. The strategic shift in payment structure reflects an effort to foster a more attractive and accelerated development of oil resources.



## INCREASED CONDENSATES PRODUCTION TARGET

In an ambitious move, the NUPRC has set a target for the increase of condensates production to 2.6 million barrels per day by 2026. This indicates the regulator's intention to create enabling environment for condensate production. Commencing from 2024, it is plausible to anticipate the regulator will be setting out policies and regulations in this direction.

# APPENDIX

## UPSTREAM RELATED REGULATIONS ISSUED BY NUPRC

### a. Nigerian Upstream Petroleum Unitisation Regulations 2023

The Unitisation Regulations sets out the rules, principles and procedures for the implementation of unitisation of oil and gas from a petroleum reservoir that extends beyond the boundaries of a licence or lease area into an area to which another licence or lease relates.

### b. Significant Crude Oil and Gas Discovery Regulations 2023

The Significant Oil and Gas Discovery Regulations sets out the terms and conditions applicable to Significant Crude Oil Discovery and Significant Gas Discovery by a licensee or lessee pursuant to the PIA, and also prescribes relevant documentation requirement for declarations of such discoveries.

### c. Frontier Basins Exploration Administration Regulations 2023

The Frontier Basins Regulations provide among others; (a) the general rules for the exercise of the NUPRC's responsibilities with respect to frontier basins in Nigeria pursuant to the PIA; (b) provide a procedure for the administration of the Frontier Exploration Fund; and (c) attract investment to the frontier basins in Nigeria.

### d. Nigerian Upstream Petroleum Measurement Regulations 2023

The Upstream Measurement Regulations establishes a framework for the installation of measurement equipment at measurement points prescribed by the NUPRC, the provision of independent and competitive metering service operations in the upstream petroleum sector, etc. The Regulations also seeks to encourage private investments in the provision of metering services in the upstream petroleum sector, as well as provide the procedure for the measurement of petroleum produced from upstream petroleum operations.

### e. Production Curtailment and Domestic Crude Oil Supply Obligations Regulations 2023

The Production Curtailment and Domestic Crude Supply Obligations Regulations sets out the general rules for production curtailment and utilisation of produced petroleum in relation to export and domestic crude oil supply obligation pursuant to the PIA.

### f. Gas Flaring, Venting and Methane Emissions (Prevention of Waste and Pollution) Regulations 2023

The Gas Flaring Regulations establish a framework for the regulation of gas flaring, venting and methane emissions by a licensee, lessee or producer of gas in upstream petroleum operations. It also sets out the procedure for the Commission to exercise its rights to take gas at flare point in accordance with the PIA.

### g. Nigerian Upstream Petroleum Decommissioning and Abandonment Regulations 2023

The Upstream Decommissioning and Abandonment Regulations sets out the framework for ensuring that decommissioning and abandonment of petroleum wells, installations, structures, utilities, plants and pipelines for upstream petroleum operations on land and offshore are conducted in accordance with good international petroleum industry practice. It also establishes the framework for the establishment and administration of a decommissioning and abandonment fund pursuant to the PIA.

## MIDSTREAM AND DOWNSTREAM REGULATIONS ISSUED BY NMDPRC

### a. Midstream and Downstream Petroleum Environmental Regulations 2023

The Midstream and Downstream Petroleum Environmental Regulations regulate, monitor, and enforce health and environmental measures relating to midstream and downstream petroleum operations. It also provides for environmental standards to be observed during midstream and downstream petroleum operations, and outline the duties, licensees, and permit holders to whom the regulations apply.

### b. Midstream and Downstream Petroleum Safety Regulations 2023

The Midstream and Downstream Petroleum Safety Regulations inter alia provide for the safety standards to be observed during midstream and downstream petroleum operations, regulate safety and occupational health in Nigerian midstream and downstream petroleum operations, as well as set out the permits, authorisations and fees for midstream and downstream petroleum operations.

**c. Midstream and Downstream Environmental Remediation Fund Regulations 2023**

The Midstream and Downstream Environmental Remediation Fund Regulations, among others, set out the general rules for the establishment and financial contribution of the Midstream and Downstream Environmental Remediation Fund for midstream and downstream petroleum operations as well as for the rehabilitation or management of negative environmental impacts arising from midstream operations.

**d. Midstream and Downstream Decommissioning and Abandonment Regulations 2023**

The Midstream and Downstream Decommissioning and Abandonment Regulations set out the general rules and requirements for the establishment and the administration of the Decommissioning and Abandonment Fund and regulate the decommissioning and abandonment activities of facilities in the Nigerian midstream and downstream petroleum industry.

**e. Midstream and Downstream Petroleum Operations Regulations 2023**

The Midstream and Downstream Petroleum Operations Regulations regulate companies' operations in the Nigerian midstream and downstream petroleum sector and provide procedures for granting licences, permits, authorisations and payment of fees.

**f. Gas Pricing and Domestic Demand Regulations 2023**

The Gas Pricing and Domestic Demand Regulations regulate the prices of marketable natural gas in the strategic sectors under the PIA, as well as identify the unregulated markets, and make provisions for such markets.

**g. Gas Distribution Systems Regulations 2023**

The Gas Distribution Systems Regulations establish the procedure for granting a gas distribution licence for a gas distribution system in a local distribution zone.

**h. Petroleum (Transportation and Shipment) Regulations 2023**

The Petroleum (Transportation and Shipment) Regulations regulate activities relating to the transportation, loading, lifting, shipment and export of natural gas or its derivatives, crude oil or its derivatives, condensate, petroleum liquids, petroleum products, or any other form of petroleum liquids in Nigeria and prohibit illegal and unauthorised activities connected with natural gas or its derivatives, crude oil or its derivatives, condensate, petroleum liquids, petroleum products, or any other form of petroleum liquids in the Petroleum industry.

**i. Petroleum Measurement Regulations 2023**

The Petroleum Measurement Regulations regulate and ensure accurate measurement and allocation of natural gas or its derivatives, crude oil or its derivatives, condensate, petroleum liquids, petroleum products, or any other form of petroleum liquids, and determine the basis for calculating revenue accruing to government, licensees, contractors and other parties in midstream and downstream petroleum operations.

**j. Gas Trading and Settlement Regulations 2023**

The Gas Trading and Settlement Regulations regulate the establishment and operations of gas trading and settlement exchange platforms, establish the principles for the secure, reliable and efficient trading and settlement of natural gas and other gas commodities, and promote and sustain the efficient and robust gas trading, exchange and settlement of natural gas and other gas commodities.

**k. Midstream and Downstream Penalties and Enforcement Mechanism Regulations 2023**

The Midstream and Downstream Penalties and Enforcement Mechanism Regulations provide a framework for applying, administering, and enforcing penalties in midstream and downstream petroleum operations.

**l. Midstream and Downstream Petroleum Alternative Dispute Resolution Regulations 2023**

The Midstream and Downstream Petroleum Alternative Dispute Resolution Regulations established the Midstream and Downstream Petroleum Alternative Dispute Resolution Centre, providing timely and cost-efficient dispute resolution procedures in the Nigerian midstream and downstream petroleum industry.

**m. Gas Flare Regulations 2023**

The Midstream Gas Flare Regulations aim to reduce the environmental and social impact caused by excessive flaring and venting of flare gas, protect the environment, prevent waste of natural resources, and set criteria for gas flaring in midstream petroleum operations for safety purposes, which includes emergency shutdown with depressurisation.

**n. National Strategic Stocks Regulations 2023**

The National Strategic Stocks Regulations set out the general rules for the administration of national strategic stocks and stipulate the public service levy for funding national strategic stocks.

**o. Natural Gas Pipeline Tariff Regulations 2023**

The Natural Gas Pipeline Tariff Regulations provide a regulatory framework to determine a sustainable gas transportation pipeline tariff regime in accordance with the PIA and establish a tariff methodology for the transportation and transmission of natural gas through gas transportation pipelines and gas transportation networks.

**p. Assignment or Transfer of License and Permit Regulations 2023**

The Assignment or Transfer of License and Permit Regulations establish a procedure for the licensee or permit holder's assignment or transfer of licence or permit and prescribe fees for such assignment or transfer

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# GLOSSARY

<b>ABBREVIATION</b>	<b>MEANING</b>
<b>Afreximbank</b>	The African Export Import Bank
<b>CAPEX</b>	Capital Expenditure
<b>CNG</b>	Compressed Natural Gas
<b>COP28</b>	28th edition of the Conference of the Parties at the 2023 United Nations Climate Change Conference
<b>COVID-19</b>	Coronavirus Disease 2019
<b>E&amp;P</b>	Exploration & Production
<b>EIU</b>	Economic Intelligence Unit
<b>EU</b>	European Union
<b>EWT</b>	Extended Well Test
<b>FDP</b>	Field Development Plan
<b>FLNG</b>	Floating Liquefied Natural Gas
<b>FPSO</b>	Floating Production Storage and Offloading
<b>GCEO</b>	Group Chief Executive Officer
<b>IEA</b>	International Energy Agency
<b>IOCs</b>	International Oil Companies
<b>IPCC</b>	The Intergovernmental Panel on Climate Change
<b>IRENA</b>	The International Renewable Energy Agency
<b>JOA</b>	Joint Operating Agreement
<b>LNG</b>	Liquefied Natural Gas
<b>LPG</b>	Liquefied Petroleum Gas
<b>MBR</b>	Mini Bid Rounds
<b>MMSCFD</b>	Million standard cubic feet per day
<b>MTPA</b>	Million Tonnes Per Annum
<b>NEPL</b>	Nigerian National Petroleum Company E & P Limited
<b>NGFCP</b>	Nigerian Gas Flare Commercialization Programme
<b>NGOs</b>	Non-Governmental Organizations
<b>NIETI</b>	Nigerian Extractive Industries Transparency Initiative
<b>NMDPRA</b>	Nigerian Midstream and Downstream Regulatory Authority
<b>NMGP</b>	Nigeria-Morocco Gas Pipeline
<b>NNPC Limited</b>	Nigerian National Petroleum Company Limited
<b>NOSDRA</b>	National Oil Spill Detection and Response Agency
<b>NUPRC</b>	Nigerian Upstream Regulatory Commission
<b>OB3</b>	Obiafu-Obrikom-Oben
<b>OPEC</b>	Organization of Petroleum Exporting Countries
<b>PEL</b>	Petroleum Exploration License
<b>PIA</b>	Petroleum Industry Act 2021
<b>PMS</b>	Premium Motor Spirits
<b>RfP</b>	Request for Proposal



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