

Upstream Acreage Management: Relinquishment Under the Petroleum Industry Act, 2021

OLAP Oil and Gas Newsletter

INTRODUCTION

The Petroleum Industry Act 2021 (PIA or the **Act**) introduced reforms causing far-reaching changes within Nigeria's petroleum sector with the goal to improve efficiency, accountability and transparency in resource allocation and management within the sector.

One of the notable changes in the Act is in relation to the requirements and procedure for relinquishment of allocated acreages. Under the Petroleum Act 1969 (**PA**), the PIA's predecessor, only holders of oil mining leases were required to relinquish and this was in relation to half of the leased area ten (10) years after the grant of a lease.¹ However, the PA (and subsidiary regulations) offer little guidance on the relinquishment process, leaving the minutiae to the discretion of the Minister of Petroleum Resources (**Minister**).² With the enactment of the PIA, different provisions have been set out in relation to the relinquishment of acreages by both holders of petroleum mining leases (**Lessees**) and petroleum prospecting licences (**Licensees**), including the circumstances under which it may occur and the intended use of relinquished areas.

In this Newsletter, we examine key provisions of the extant legal framework on relinquishment, the circumstances under which relinquishment may occur, the purpose(s) and implications of relinquishment.

MEANING AND PURPOSE OF RELINQUISHMENT

The Act does not define the word 'relinquishment'³. Nonetheless, based on the dictionary definition⁴ and usage in the oil and gas industry, the term refers to the process whereby a holder of a licence or lease returns a portion or the entirety of its allocated acreage to the government after a defined period under specified conditions.

The primary purpose of relinquishment is to promote active exploration and development of upstream oil and gas petroleum resources by Licensees and Lessees, failing which any undeveloped portions of the allocated acreage (extending to subsurface depth of an acreage) reverts to the Government of the Federation of Nigeria.⁵ Relinquishment is an acreage optimisation and management technique employed by the government by freeing up underutilised or idle oil and gas reserves, and subsequently redistributing them to other investors through competitive bidding rounds.

RELINQUISHMENT UNDER THE PIA AND SUBSIDIARY REGULATIONS

Under the PIA and relevant subsidiary regulations issued by the Nigeria Upstream Petroleum Regulatory Commission (**NUPRC** or the **Commission**) to wit: the Significant Crude Oil and Gas Discovery Regulations 2023 (**Significant Discovery Regulations**) and the Acreage Management and Petroleum

1. Para 12(1), First Schedule, Petroleum Act 1969.

2. Para 20, First Schedule, Petroleum Act 1969. Reg 2 (4) of the Petroleum (Drilling and Production) Regulations 1969 (as amended).

3. It is noteworthy that the term is also not defined under the PA.

4. https://www.oed.com/dictionary/relinquishment_n?tab=meaning_and_use

5. By section 1 of the Act, the property and ownership of petroleum within Nigeria and its territorial waters, continental shelf and exclusive economic zone is vested in the Government of the Federation of Nigeria.

(Drilling and Production) Regulation 2024 (**Acreage Management Regulations**), relinquishment can be categorised into two (2) i.e. mandatory relinquishment and voluntary relinquishment. As set out in the succeeding paragraphs, each category of relinquishment is triggered by specific conditions, driven by a mix of legal obligations, commercial strategy and regulatory intervention.



MANDATORY RELINQUISHMENT

The Act, the Significant Discovery Regulations and the Acreage Management Regulations recognise varying circumstances that will result in the mandatory relinquishment of portions, either automatically or following a request by the Commission. These circumstances are as follows:

Declaration of No Interest Before or After Appraisal by Licensee or Lessee

In the event a Licensee makes a discovery of crude oil or gas after drilling an exploration well during the period provided for in a petroleum prospecting licence, the Licensee is required to inform the Commission, within one hundred and eighty (180) days, whether the discovery merits its appraisal or whether it has no interest in the discovery.⁶ To the extent that the discovery merits appraisal, the Licensee shall undertake an appraisal program for a period not exceeding three (3) years,⁷ following which the Act provides that the Licensee may declare a commercial discovery,⁸ significant gas discovery,⁹ a significant crude oil discovery,¹⁰ or that the discovery is of no interest.¹¹

Where the Licensee declares that it has no interest following exploration or appraisal, the Commission may direct the Licensee to relinquish parcels that cover the area where the discovery was made¹² following which the Licensee must relinquish the affected parcels.

Failure to Make a Significant Crude Oil or Significant Gas Discovery Declaration

Following an appraisal period, where a Licensee fails to make a declaration, and the Commission, based on available data and information, determines that a declaration of significant discovery ought to have been made,¹³ the Commission may issue a notice of non-declaration of Significant Gas Discovery or Significant Crude oil Discovery¹⁴ (the **Non-Declaration Notice**) to the Licensee. The Non-Declaration Notice will require the Licensee to make a declaration within thirty (30) days.¹⁵ If the Licensee fails to comply within the specified period, the Licensee shall be deemed to have made a declaration of no interest in the affected area and the Commission may require the Licensee to relinquish the affected acreages.¹⁶ Once the Commission issues this directive, relinquishment of the affected area by the Licensee shall be mandatory.¹⁷

No Commercial Discovery after Retention Period

Generally, the Act entitles a Licensee who makes a declaration of Significant Crude Oil Discovery or Significant Gas Discovery upon the completion of an appraisal program, to retain the area where such significant discovery was made for a retention period as shall be determined by the Commission.¹⁸ During the retention period, the expectation is that the Licensee will drill additional appraisal wells and ultimately, declare commercial discovery in respect of the retention area.

6. Petroleum Industry Act 2021, s 78(3).

7. Petroleum Industry Act 2021, s 78(4).

8. Commercial discovery is defined in section 318 of the PIA to mean a discovery of crude oil, natural gas or condensates within a petroleum prospecting licence or petroleum mining lease which can be economically developed in the opinion of the licensee or lessee after consideration of all relevant economic factors normally applied for the evaluation and development of crude oil, natural gas or condensate.

9. Significant gas discovery means a discovery of natural gas that is substantial in terms of reserves and is potentially commercial but cannot be declared commercial for the reasons identified in section 318 of the PIA and regulation 4 of the Significant Discovery Regulations 2023.

10. Significant crude oil discovery means a discovery of crude oil that is substantial in terms of reserves and is potentially commercial but cannot be declared commercial for the reasons identified in section 318 of the PIA and regulation 3 of the Significant Discovery Regulations 2023.

11. Petroleum Industry Act 2021, s 78(8).

12. Petroleum Industry Act 2021, s 78(15).

13. Significant Discovery Regulations 2023, reg 8(1).

14. Significant Discovery Regulations 2023, reg 8(2).

15. Significant Discovery Regulations 2023, reg 8(3).

16. Significant Discovery Regulations 2023, reg 8(4).

17. However, a Licensee who has failed to make the necessary declaration after the expiration of the 30-period but who makes the declaration before the Commission makes the requirement for relinquishment, will not be required to relinquish but will be subject to an administrative penalty of \$10,000 or its Naira equivalent at the prevailing Central Bank of Nigeria (CBN) rate for each day the default persisted. Significant Crude Oil and Gas Discovery Regulations 2023, reg 8(5).

18. Petroleum Industry Act 2021, s 78(9) & 88(6). The retention period shall not exceed ten (10) years.



However, if upon the expiration of the retention period, no commercial discovery is declared by the Licensee in relation to the retention area, the retention area will be immediately relinquished by the Licensee.¹⁹ Unlike the previously highlighted circumstances, this envisages an automatic relinquishment without any request by the NUPRC. Upon relinquishment of the retention area, the petroleum prospecting licence covering the retention area shall expire.²⁰

Failure to Submit a Field Development Plan

Where a Licensee declares a commercial discovery, the Licensee is required to submit a field development plan (FDP) to the Commission within two (2) years of the declaration, accompanied with a commitment to carry out the work set out in the FDP.²¹ Failure to submit the FDP and the work commitment within the 2-year window will result in the automatic relinquishment of the area containing the commercial discovery.²²

Relinquishment of Undeveloped Areas in Petroleum Prospecting Licence Area

In connection with a petroleum prospecting licence, a Licensee is mandated to relinquish every area covered by the licence not being: (x) an appraisal area; (y) a retention area; (z) a lease area; and (xx) a commercial discovery area, on the date of expiration of the initial exploration period or extension period of a petroleum prospecting licence.²³ To facilitate the relinquishment process, thirty (30) days prior to the expiration date of the petroleum prospecting licence, a Licensee is expected to provide, for the approval of the Commission, a map showing the appraisal areas, commercial discovery

areas, lease areas, and retention areas which the licensee intends to retain.²⁴

Relinquishment of Undeveloped Areas in Petroleum Mining Lease

Section 88(5) of the PIA provides that ten (10) years after the commencement of a petroleum mining lease, a Lessee shall be mandated to relinquish the parcels which fall outside the boundary of a producing field. Additionally, to ensure that Lessees do not lock up subsurface potential without drilling, a Lessee shall relinquish any formation which is deeper than the deepest producing formation, as well as any ancillary deep rights (that is, subsurface rights).²⁵

Within ninety (90) days before the tenth year of the effective date of the lease, the Lessee shall submit to the Commission: (x) a map of the lease area showing the outer boundary of the producing field and parcels of the field which the Lessee intends to relinquish, if any; and (y) a contour map of the deepest producing formation and all horizons in the lease area.²⁶ Upon submission of the maps by the Lessee, the Commission shall within sixty (60) days of the submission, determine the acreages to be relinquished and communicate same to the Lessee. The Lessee must relinquish the determined acreages on the tenth year of the effective date of the lease.²⁷

A dissatisfied Lessee may object to the Commission's determination, in writing, within fifteen (15) days of receipt of the Commission's determination.²⁸ Within sixty (60) days of receiving the objection, the NUPRC shall communicate a final determination to the Lessee.²⁹ Accordingly, the NUPRC appears to serve as the final arbiter in matters relating to relinquishment determinations under this category. This is especially given the strict grounds upon which administrative actions of this nature may be subject to judicial review by the courts.³⁰

19. Petroleum Industry Act 2021, s 78(13), s 88(6).

20. Petroleum Industry Act 2021, s 78(14).

21. Petroleum Industry Act 2021, s 79(1).

22. Petroleum Industry Act 2021, s 79(5); Acreage Management Regulations 2024, reg 15(8).

23. Petroleum Industry Act 2021, s 88(1); Acreage Management Regulations 2024, reg 15 (1) and (4). These areas include any areas which a Licensee has declared that it has no interest or areas a Licensee has failed to make a declaration of significant discovery after the issuance of Non-Declaration Notice by the NUPRC, and which the Commission has not requested the Licensee to relinquish.

24. Acreage Management Regulations 2024, reg 15(3).

25. Petroleum Industry Act 2021, s 88(5).

26. Acreage Management Regulations 2024, reg 29(1).

27. Acreage Management Regulations 2024, reg 29(5).

28. Acreage Management Regulations 2024, reg 29(3).

29. Acreage Management Regulations 2024, reg 29(7).

30. *Sarat (Nig) Ltd v Railway Property Management Ltd (2025) LPELR-81396(CA)*. In determining an application for judicial review, the Court is guided by the following considerations: (x) whether or not the order will issue does not only depend on whether the errors complained of are errors of law, or fact. The error must disclose excess of jurisdiction and the error of law must be one on the face of the record; (y) a person applying for an order of certiorari must show that the body concerned has in one way or the other failed to act judiciously where it should; (z) that it is not all errors of jurisdiction that will justify the making of an order of certiorari; while all errors going to jurisdiction can provoke an order of certiorari, all errors within jurisdiction are only caught if they are errors on the face of the record.



Relinquishment Upon Renewal or Conversion of an Oil Mining Lease

One of the introductions of the PIA is the automatic conversion of all Oil Prospecting Licences (OPLs) and Oil Mining Leases (OMLs) to petroleum prospecting licences and petroleum mining leases, respectively, upon the expiration of the OPL or OML (Renewal Date).³¹ Additionally, the Act provides for the voluntary conversion of OPLs and OMLs by entering a conversion contract and upon satisfaction of prescribed conditions.³²

Importantly, on the Renewal Date or upon conversion, an OML holder is expected to designate its acreages into five (5) broad categories³³ all of which should cover a maximum of 40% of the acreages held under the lease provided that an area larger than 40% of the lease area may be retained by the holder of an OML if such area in excess of the 40% consists of selected areas.³⁴ Accordingly, the holder of an OML is mandated to relinquish the remaining 60% of the acreage held under the OML which it has not mapped into any of the five (5) categories, at the Renewal Date or the Conversion Date.³⁵

VOLUNTARY RELINQUISHMENT

The PIA recognises the ability of Licensees to voluntarily relinquish parts or all of the acreage held under a petroleum prospecting licence provided the Licensees give sixty (60) days prior notice to the NUPRC.³⁶ However, any voluntary

relinquishment is subject to the: (x) Licensee having complied with all obligations under the licence including obligations relating to the environment; (y) payment of outstanding rents and statutory payments, and (z) approval of the Commission. Where any of the above conditions are not met, the Commission may reject the proposed relinquishment.³⁸ In addition, the NUPRC must approve the shape and size of the proposed area(s) sought to be relinquished.³⁹

Curiously, the PIA and Acreage Management Regulations also provide for the surrender of licences and leases, separate from voluntary relinquishment. Section 89 of the PIA entitles a Licensee or a Lessee to surrender part or the whole of the licensed or leased area provided that the Licensee or Lessee has: (x) complied with obligations under the license or lease, including any decommissioning and abandonment obligations;⁴⁰ and (y) given three (3) months written notice to the Commission prior to the surrender. Also, the Commission will consider whether the area contains reserves in paying quantities.

It is unclear what the distinction between surrender and voluntary relinquishment is, given that both constructs have the same effect—opting to return acreage(s) to the Government, subject to approval by the NUPRC—and the conditions for both constructs are significantly similar. However, it appears that the surrender provisions in the PIA is a legacy inherited from the PA. Unlike the PIA, the PA makes no provision for voluntary relinquishment. Instead, the PA provides that holders of OPLs and OMLs may surrender all or parts of a licensed area on satisfaction of specified conditions.⁴¹ In practice, the surrender provisions under the PA functioned as a de facto voluntary relinquishment, as this is the only basis under the PA for asset owners to voluntarily return parts or all of their licence or lease areas to the government.

31. Petroleum Industry Act 2021, s 93(6).

32. Petroleum Industry Act 2021, s 92. The period provided for within the Act within which a Licensee or Lessee can opt for such voluntary conversion has however lapsed

33. Petroleum Industry Act 2021, s 93(1). These categories are (x) areas, which in the opinion of the holder, merit appraisal and for which the holder is prepared to present an appraisal programme; (y) areas, in respect of which the holder is prepared to make a declaration of a commercial discovery and submit a field development plan; (z) areas in respect of which the holder is prepared to make a declaration of a significant gas discovery or significant crude oil discovery and submit an application for approval of a retention area; (xx) areas in respect of which field development is underway after having declared a commercial discovery or made a final investment decision to develop the field; (yy) areas in respect of which regular commercial production is ongoing.

34. Petroleum Industry Act 2021, s 93(2).

35. Petroleum Industry Act 2021, s 93(4).

36. Petroleum Industry Act 2021, s 88(4); Acreage Management Regulations 2024, reg 15(9).

37. Acreage Management Regulations 2024, reg 15(11).

38. Acreage Management Regulations 2024, reg 15(12).

39. Petroleum Industry Act 2021, s 88(4).

40. Acreage Management Regulations 2024, reg 31(3).

41. Para 19, First Schedule, Petroleum Act 1969. These conditions are, (x) the OML or OPL holder had to give three (3) months prior written notice to the Minister of its intention to surrender; (y) the approval of the shape and size of the area to be relinquished by the Minister; (z) that the holder of the OPL or OML was not, by reason of the surrender, relieved of any liability or obligation incurred or imposed under the licence or lease before the effective date of the surrender; and the reservation to the Minister over the retained area, such way-leaves, easements or other rights as in the Minister's opinion are necessary or desirable for the laying, operation and maintenance of pipelines, telephone lines and power-lines.



Given the extensive provisions in the PIA relating to voluntary relinquishment, it would seem that the retention of surrender provisions in the PIA serves no additional practical purpose for operators. Nevertheless, the Acreage Management Regulations provides that the NUPRC will issue additional guidelines for the approval of applications for surrender.⁴² We anticipate that the Commission may clarify the practical interplay between voluntary relinquishment and surrender in its forthcoming guidelines.

IMPLICATIONS OF RELINQUISHMENT

Upon relinquishment, the relinquished parcels revert to the Government of the Federation of Nigeria and are administered by the Commission.⁴³ To this extent, the Commission is empowered to offer the relinquished areas to the market through an open, transparent, non-discriminatory, and competitive bidding process.⁴⁴ It is important to note that relinquishment does not relieve a Licensee or Lessee of any obligation or liability which has been imposed or incurred prior to the relinquishment.⁴⁵ As such, it is expected that all outstanding liabilities will be satisfied by the current Licensee or Lessee prior to effectiveness of the relinquishment.

Further, to prevent conflict where there is a grant of relinquished deep rights in a licence or lease to a third party other than the existing Licensees or Lessees, the NUPRC will procure Licensees or Lessees of the overlapping area to enter into a cooperation protocol, within two (2) years, dealing with matters such as non-interference measures, location of wells, construction of gathering lines, unauthorised production from reservoirs, notice of dangerous operations, joint emergency response, joint use of certain facilities and pipelines, land and water rights.⁴⁶

Lastly, the Commission may require Licensees or Lessees to decommission and abandon any wells or structures situated within relinquished areas.⁴⁷ In such circumstances, the Licensee or Lessee would be expected to bear the associated costs, failing which the Commission may draw from the Licensee or Lessee's Decommissioning and Abandonment fund (**D&A Fund**)⁴⁸ to cover the necessary expenses.

CONCLUSION

Relinquishment, as envisaged under the extant legal framework, will serve as a vital regulatory mechanism to curb underutilisation, promote accountability, and ensure that Nigeria's petroleum resources are harnessed in alignment with national interests particularly in light of Nigeria's 2 million barrels per day production target by 2027. In our view, the effective implementation of the extant provisions can reinvigorate exploration activities, attract a diverse and capable pool of capable investors, and discourage speculative hoarding of assets, contributing to Nigeria's broader economic gains. Nonetheless, the success of this framework will depend not only on regulatory enforcement but also on the strategic alignment of policy, industry practices, and investor confidence.

42. Acreage Management Regulations 2024, reg 30(5).

43. Petroleum Industry Act 2021, s 88(7), s 94(7).

44. Petroleum Industry Act 2021, s 73(1), 74(1)

45. Petroleum Industry Act 2021, s 88(8).

46. Petroleum Industry Act 2021, s 88(9); Acreage Management Regulations 2024, reg 30.

47. Nigeria Upstream Petroleum Decommissioning and Abandonment Regulations, 2023, reg 16.

48. Nigeria Upstream Petroleum Decommissioning and Abandonment Regulations, 2023, reg 21(9).

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