



**THE HOUSE OF REPRESENTATIVES OF THE FEDERAL REPUBLIC OF
NIGERIA
JOINT UPSTREAM / DOWNSTREAM / GAS / JUSTICE COMMITTEE
PETROLEUM INDUSTRY BILL (PIB) PUBLIC HEARING**

JULY 30, 2009, ABUJA, NIGERIA

The Chairman of the Joint Committee, Honorable Bassey Otu
Other Honorable Members of the Joint Committee
The Minister of State for Energy, Ministry of Petroleum, Mr. Odein Ajumogobia
NNPC Group Managing Director, Dr. Sanusi Barkindo
The Special Adviser to the President on Energy, Dr. Emmanuel Egbogah
Captains of the Industry

Ladies and Gentlemen

All Protocols Observed:

Thank you for granting Chevron the opportunity to make few comments at this important public hearing, which represents a critical point in the history of the oil and gas industry in Nigeria.

First of all, let me say emphatically that Chevron supports the positions presented by the OPTS earlier today and would therefore like to encourage This Committee to adopt the changes recommended to ensure the laudable objectives of the proposed reform are actualized.

The future of the industry is dependent on attractive fiscal and a regulatory environment that can promote increased oil production in mature areas, facilitate the needed transition from predominantly oil to an integrated oil and gas production regime that satisfies energy demand in the domestic, regional, and export markets.

Chevron has been a major investor in Nigeria for more than four decades. We operate in the swamp, near-shore, and deep offshore environments, providing equal opportunity employment and wealth creation opportunities to the indigenes of the areas where we operate in the Niger Delta.

Under the existing fiscal regime, we are investing nearly 3 billion US dollars per year to support ongoing operations and execute new oil and gas projects to increase production capacity, ensure operational reliability, and provide domestic gas for power generation and industrial uses to facilitate the rapid growth of the nation's economy. Even before the recent push for flare out solutions, Chevron pioneered gas development in Nigeria with the commissioning of the first phase of the Escravos Gas Project (EGP 1) in 1997. In 2000,

we commissioned the second phase and expanded gas processing capacity from 165 to 285 million standard cubic feet per day and eliminated routine flares in our South Offshore and Onshore Operational areas. Though the onshore facilities were destroyed during the 2003 communal crisis, we are currently rebuilding those and executing other projects to completely eliminate flares, increase our gas processing capacity by nearly 400 MMSCFD and remain the number one supplier of dry gas to the Nigerian Market.

Over the years, we have cultivated many cordial business and social relationships with our host communities under the platform of the Global Memorandum of Understanding (GMOU), a program that facilitates participatory partnership by the communities in our corporate social responsibility spend for programs and projects.

It is our desire to continue to operate in Nigeria, but the new fiscal reform must provide a stable investment climate that allows decent and competitive returns on investment. The current fiscal arrangement for the JV business represents the highest government take in the world and therefore there is no room to increase government take. The combination of additional levies and taxes in the new bill leave no acceptable margin for the investor.

In addition to recommendations presented by OPTS, we encourage this Joint Committee to please consider the following specific suggestions with respect to impact of the bill on our operations in Nigeria;

Gas Development

Chevron supports the government's objective of flares-out and the shift of focus to domestic and regional gas markets, evidenced by our financial commitments to the Escravos Gas Projects (EGP) and the West African Gas Pipeline (WAGP). Consolidation of gas project cost and tax with oil projects will be required to build a viable gas business. Specifically, Chevron requests that the new PIB include consideration to balancing domestic and regional gas supply objectives to respect the treaty signed between Federal Government of Nigeria and the other West African Gas Pipeline countries under the auspices of ECOWAS by treating gas supply to the WAGP as domestic gas. This will ensure regional export agreements made with our WAGP partners are fulfilled and promote regional economic development.

Incorporated Joint Venture (I-JV)

The NNPC/Chevron Joint Venture has a history of successful production from onshore and shallow water oil fields. In order to fulfill the government's objective of creating an independent and bankable I-JV, the PIB will need to provide flexible and stable terms for financing the capital and operating requirements of the operating company. Specifically;

- Prior to the incorporation of the I-JV, the National Oil Company and its JV partners must recognize, all outstanding liabilities and agree an equitable resolution of all such liabilities on the basis that no party should suffer any loss or make any gains as regards those liabilities; and

- An adequate transition schedule of 18- 36 months is required to secure financing, negotiate shareholder agreements, and integrate current JV arrangements into an efficient I-JV structure. Funding from all partners in the I-JV will be required during the transition period

Production Sharing Contract (PSC)

We support tax and royalty regime proposed by OPTS but new projects such as Agbami and Usan must be allowed to complete cost recovery before converting to the new fiscal regime. As these investments were made on existing contract terms, we expect that contract provisions for cost recovery and cost / profit oil splits will be honored.

PIB provisions that cap assessable costs and set arbitrary benchmarks for cost recovery, limit investment tax credits, and allowances, and add new taxation will challenge the viability of smaller discoveries (less than 400 million barrels of oil). These fields were marginally economic under existing terms due to the high development costs in Nigeria.

Conclusion

While we support the goals of the PIB to improve the fiscal and regulatory aspects of the Nigeria's oil industry, the collective impact of the proposed additional levies and taxes ultimately reduces the competitiveness of our projects in Chevron's global portfolio, future investment, and ultimately our long-term production goals. While increased taxation is intended to provide an immediate increase in government cash-flow, the PIB would cause a reduction in investment capital available to our operations resulting in lower production and thus lower government revenue in the long term.

The Chevron companies in Nigeria have played a leading role in developing several opportunities in Nigeria, most recently in the exciting deepwater acreage while pioneering challenging gas utilization projects. We have also made innovations in community development and empowerment. The successes we have achieved in our four decades in Nigeria have been facilitated by a fiscal and regulatory environment where existing commitments have been honored and legislators and policy makers have paid keen attention to the competitiveness of Nigeria as an oil and gas investment destination.

We believe that there remains significant potential in Nigeria and we reiterate our continued commitment to Nigeria and its people and our determination to continue to grow our investments in Nigeria in a manner that is mutually beneficial to the nation and our company. These new investments will however require continued respect for existing commitments and a renewed commitment from the Nigerian government to remain competitive. We believe that the suggestions made by the OPTS on the PIB which we fully support and our own proposals are essential to achieving these objectives.



MEMORANDUM ON THE REVIEW OF S.B. 236 - A BILL FOR AN ACT TO ESTABLISH THE LEGAL AND REGULATORY FRAMEWORK, INSTITUTIONS & REGULATORY AUTHORITIES FOR THE NIGERIAN PETROLEUM INDUSTRY, TO ESTABLISH GUIDELINES FOR THE OPERATIONS OF THE UPSTREAM AND DOWNSTREAM SECTORS AND FOR PURPOSES CONNECTED WITH THE SAME (THE PETROLEUM INDUSTRY BILL)

DELIVERED TO THE HOUSE OF REPRESENTATIVES JOINT COMMITTEE ON THE PETROLEUM INDUSTRY BILL 2009 BY THE CHEVRON COMPANIES IN NIGERIA

Distinguished Chairman and Members of this esteemed Joint Committee

We thank you for your kind invitation to present our views to the public hearings and contribute to the consultative process on this extremely important legislation under consideration by this Committee.

This review of the relevant petroleum and gas laws of Nigeria, coming 40 years after the promulgation of the Petroleum Act in 1969, is necessary. The end product of such a review should be a comprehensive updating of the relevant laws to recognize and encourage the evolution and growth of the oil and gas business, stimulate sustainable investment, and increase revenues for the benefit of the people of the Federal Republic of Nigeria, while at the same time respecting existing agreements on the basis of which substantial financial investments have already been made.

With these objectives in mind, we have a number of concerns that certain provisions in the proposed bill challenge the ability of the oil and gas industry, (whether indigenous, international or government owned), to continue investing in new exploration and development projects and thus increase the revenues accruable to the Federal Government. Some other provisions do not preserve essential terms in existing agreements which have underpinned significant investments.

Chevron and Its Neighbors in the Niger Delta

Chevron as a company has a worldwide commitment to being a good partner focused on building productive, collaborative, trusting, and beneficial relationships with our host governments, and communities. In Nigeria, we have demonstrated this commitment in very many ways over more than forty years of continuous operations, and we will highlight just one example out of many. Our Global Memorandum of Understanding (GMOU) approach to community development in the Niger Delta has empowered the communities in which we operate, given them the ability to determine their own development priorities and facilitated

the development of many community projects selected, designed, constructed, supervised, and managed by people in our communities. Through this process, not just the projects themselves but transformative governance, planning skills, and institutions have been developed in the areas of the Niger Delta where we operate. As a result of the success of the GMOU program, one of the GMOU communities has attracted funding from an international Non-Governmental Organization.

Chevron's Investments in Nigeria

Over the years we have operated in Nigeria, we have built along with NNPC and our other partners in deepwater and gas ventures a diversified business covering all aspects of oil and gas exploration, production and processing. We operate an extensive oil business onshore and in the shallow water of the Niger Delta, have recently completed the development of the Agbami field with production estimated to reach 250,000 barrels of crude oil per day by year end 2009 and are involved with our partners in the development of the Usan deepwater project estimated to cost 7.5 billion US dollars which will add approximately 150,000 barrels of oil per day to Nigeria's crude oil production. Under the existing fiscal regime, we are currently investing nearly three billion US dollars per year to support ongoing operations and execute new oil and gas projects to increase production capacity, ensure operational reliability, and provide domestic gas for power generation and industrial uses to facilitate the rapid growth of the nation's economy.

Even before the recent push for increased domestic gas supply, Chevron pioneered gas development in Nigeria with the commissioning of the first phase of the Escravos Gas Project (EGP 1) in 1997. In 2000, we commissioned the second phase and expanded gas processing capacity from 165 to 285 million standard cubic feet per day and eliminated routine flares in our South Offshore and On-shore Operational areas. Though the onshore facilities were destroyed during the 2003 communal crisis in our operational areas, we are currently rebuilding those and executing other projects to increase our gas processing capacity by nearly 400 million standard cubic feet per day by year end 2009 and fulfill our long term domestic supply obligations (805 million standard cubic feet per day). With these new projects we will remain the number one supplier of dry gas to the Nigerian Market. By year end 2009, the NNPC/Chevron joint venture (NNPC/CNL JV) would have spent over \$6.5 billion in developing Nigeria's domestic gas industries, including the Escravos Gas Projects Phase 1 to Phase 3A, the Escravos Gas-to-Liquids Project and West African Gas Pipeline Project.

The Petroleum Industry Bill

The Chevron Companies in Nigeria align with the broad objectives as stated by the Oil and Gas Reform Implementation Committee (OGIC) in their July 2008 report:

- Maximization of the nation's economic rent from the oil and gas sector while not jeopardizing the growth and development of the industry
- Separation and clarity of roles between the different public agencies operating in the industry

- Infusion of strict commercial orientation in all relevant aspects of the industry
- Increased transparency, accountability and ensuring processes are auditable
- Fostering an enabling business environment with minimal political interference
- Reposition the nation's oil and gas industry in view of contemporary challenges within the sector both globally and in the domestic sphere
- Meeting the nation's needs for fuels at a competitive price
- Maximization of local content and development of Nigerian capacity
- Diversification of the economy.

The Incorporated Joint Ventures

The Chevron Companies fully support the establishment of Incorporated Joint Ventures (I-JVs). We experienced first hand for many years the funding difficulties of the unincorporated joint ventures. Indeed since 2004, we have been carrying our partner using alternative funding arrangements to fully fund NNPC/CNL joint venture operations and monetize oil and gas opportunities. Therefore, we agree that the I-JVs, if properly established, will provide a viable solution to those funding problems.

- To realize the full benefit of the I-JVs, the following requirements are critical:
- The I-JVs must be able to retain necessary cash flows, retain earnings for future investments and able to raise third party financing.
- The issues that impact the bankability of such I-JVs, which are discussed in more detail below, need to be properly addressed preferably by legislation in the PIB.
- Sufficient funds need to be appropriated for the transition and start up period of the I-JVs until the earnings of the I-JVs are able to support external financings.
- Partners to the I-JVs should have the ability and sufficient time to negotiate and implement shareholder and other agreements that govern the I-JVs. The inclusion of restrictive rules on I-JV shareholder agreement issues in legislation will hamstring the ability of the parties to develop equitable and sustainable commercial solutions.

It is extremely important that the PIB take account of the transitional challenges to forming the I-JVs. From recent experience in Nigeria and elsewhere, it will take time to conclude all the shareholding agreements and incorporation documents, legally form the entities, sufficiently establish regulatory institutions to facilitate the implementation of the I-JV structure, select and appoint the right staff, get them familiar with the operations, make decisions on the work programs and leases for future years and establish a track record of successful I-JV operations supported by financial books and records. Until these are done, there will be a requirement for funding by the Federal Government of Nigeria before commercial funding can be obtained from external banks. It is therefore clear that full external funding is going to take several years to achieve. The industry in the meantime will

need about ten billion US dollars per year to maintain existing operations and to grow at a steady pace. As this will not be available from commercial banks on the day after the bill passes, the PIB needs a transition plan that addresses the process for getting from where we are today to when the I-JV will be in a position to raise external funding as required.

To be in a position to raise external financing, the I-JVs must be established on a bankable basis. One of the major bankability issues is the ability of the I-JVs to retain sufficient earnings for re-investment and debt repayment.

The proposed new fiscal terms significantly reduce I-JV cash flows leaving it with insufficient funding for investment in new projects and debt repayment. For an I-JV to be bankable, lenders consider the following:

- Existence of a stable investment climate
- Predictable fiscal regime
- Ability to repay the loan
- Certainty of cash flows
- Ability to pledge assets and future production
- Operator track record and ability
- Credit rating and track record of borrower

Based on the above, the PIB will severely challenge the bankability of the I-JVs.

Proposed JV terms in the PIB are extremely onerous on the International Oil Companies (IOCs)

The current JV oil regime is already one of the highest government takes globally at 92% including Government take from taxes and royalty at 82% and the National Oil Company (NOC) share of 10%. The 8% IOC take is low given the expenditures and risks involved in the oil and gas industry.

The new JV terms as proposed in PIB further decreases IOC take to 2%, moving the JV oil regime to an extreme level of government take world-wide.

The proposed new JV terms under the PIB need to be reconsidered. The Chevron Companies recognize the sovereign right of the Government to review its cash flows, but at a certain point, the impact of increasing the Government Take becomes negative as partners move their money into other jurisdictions or sectors with better returns. Our proposal is that no tax or royalty increase in JV oil regime should be introduced as JV investors who are continuing to invest in new JV projects should receive a reasonable take for funds invested and risk undertaken in sustaining and growing JV production.

JV oil returns are required to provide the investment capital needed for JV gas projects. As such, the loss of this JV revenue has the further knock-on effect of eliminating a major source of revenue required to support the domestic gas growth aspirations.

Another issue for the I-JVs created by the PIB is the potential impact of subjecting parts of integrated JV operations to different fiscal and regulatory rules. In our own case, the NNPC/CNL JV's Escravos Terminal is an integrated oil and gas operation with crude treating, shipment and fiscalization as well as gas processing operations to extract LPG and supply residue gas to the domestic market. In the PIB, Escravos Terminal operations should therefore be treated as part of the Upstream Operations.

The Impact of the PIB on Production Sharing Contracts is Negative

Nigeria's only recent oil production growth has been driven by the start-up of multiple world class deep water development projects. Deep water developments have added approximately 600,000 barrels of oil per day, 250,000 of which is from Chevron's Agbami field. Moving forward from today, it is imperative that we balance continued growth with increasing the government take.

Applying the fiscal terms from both the PIB and the Inter Agency Team Submission results in no new future developments being economic as the rate of returns on investor investments falls significantly below the minimum acceptable level.

For those major deepwater projects that have been undertaken, but where the Contractors have not yet been able to recover the initial capital investment, a savings provision should be included that provides for any new royalties to only become effective after that initial capital investment has been recovered. It would be unreasonable to defer and reduce the amount the Contractor recovers when, in good faith, significant capital was spent on the expectation of a return of that investment per the agreed contract.

Taxation at I-JV Level

For synergies and efficiencies it is important that the taxation unit should be the I-JV.

PIB, Escravos Gas-to-Liquids Project (EGTL) and West African Gas Pipeline (WAGP)

We have earlier referred to our two major gas development projects, the Escravos Gas-to-Liquids Project and the West African Gas Pipeline Project. Gas supply to these two projects should remain an integral part of the domestic gas market. The WAGP Project was undertaken by the project sponsors with the support of ECOWAS and the governments of Nigeria, Benin, Togo, and Ghana to promote regional economic development. Under the WAGP Treaty entered into between Nigeria, Benin, Togo, and Ghana, Nigeria has treaty obligations to treat gas for transportation through the WAGP on the same terms as domestic gas. The EGTL project will add significant value to natural gas produced in Nigeria by converting 330 million standard cubic feet of dry gas per day to green diesel while providing employment for about 7,000 Nigerians in the Niger Delta during the construction phase and additional 2,000 jobs during its operating phase. For these reasons, the National

Gas Supply and Pricing Policy (at page 5) recognizes gas-to-liquids industries as being part of the commercial domestic gas sector. The PIB should recognize this distinction and include EGTL in the domestic gas industries to align the PIB to the national gas master plan policy.

Licenses and Leases

The PIB provides for the expiration of license on conversion to a lease. Licensees should not be penalized for efficient and diligent development of the license. Where the operator can demonstrate to the satisfaction of the Inspectorate that exploration and appraisal activities are continuing over the balance of the license area, such license should continue until expiration.

The Chevron Companies also have serious concerns about the impact of the proposed provisions relating to relinquishment, renewal, and revocation of licenses and leases in the proposed revisions to the PIB in the Inter Agency Submission. These provisions challenge contract sanctity and negatively affect investor certainty as to application of the rules. Some of the contentious provisions address the following areas:

Relinquishment of Existing Licenses and Leases

Funding challenges over the past years required prioritisation of investments leading to selective areas of the license and lease being developed. The Inter Agency Submission proposal requires existing licensees and lessees to re-apply for new petroleum mining leases in respect only of areas where there is a significant gas discovery, commercial discovery, continuing commercial production or where development is underway. All other areas, including gas discoveries of over 30 years, must be relinquished as early as one year after enactment of the Bill.

The PIB should provide a reasonable time-frame in which lessees can re-evaluate their current portfolios, including gas discoveries of over 30 years, in order to make efficient investment and relinquishment decisions. In addition, the bill should allow for automatic conversion of existing licenses and leases when the defined conditions are met.

Renewal of Leases

The Inter Agency Submission would propose restricting renewal of leases to one term of ten years only. Firstly there is no certainty of renewal even where all obligations have been met and all royalties rents etc., have been paid as and when due. Renewal is left to the discretion of the Minister.

Projects, particularly in the deep waters and in security affected areas can take up to ten years to come on stream from FID. This means that investors would only have ten years and an uncertain renewal of another ten years to recoup their investment and make an economic return. This is too short. This restriction does not give any incentive to undertake production enhancement projects of mature fields as the renewal period is potentially shorter than the span of investment return of such projects.

We propose that 1) where all conditions are met, the renewal should be automatic as is the current practice and 2) the renewal period should be twenty years.

Revocation of Leases

The Inter Agency Submission proposal provides for revocation of a lease if there is a failure to attain commercial production within five years from the grant. Five years is shorter than standard industry lead times for putting a project into production and this period should be a minimum of 10 years. All possible revocation of leases should always be subject to a process of notification, representation, cure period to allow a lease holder to remedy any non compliance and appeal.

Definition of Upstream and Midstream

The definitions of upstream and midstream are not practical for administration and operational measurement. We have proposed internationally common definitions for upstream and midstream.

Appendix

Accompanying this memorandum is a table where we propose for your kind consideration alternative language to deal with the issues we have raised above.

CONCLUSION

As indicated above, the Chevron Companies in Nigeria have played a leading role in developing several opportunities in Nigeria, most recently in the exciting deepwater acreage while pioneering challenging gas utilization projects such as EGTL and WAGP. We have also made innovations in community development and empowerment. The mutual successes we have achieved in our four decades in Nigeria have been facilitated by a fiscal and regulatory environment where existing commitments have been honored and legislators and policy makers have paid keen attention to the competitiveness of Nigeria as an oil and gas investment destination.

We believe that there remains significant potential in Nigeria and we reiterate our continued commitment to Nigeria and its people and our determination to continue to grow our investments in Nigeria in a manner that is mutually beneficial to the nation and our company. These new investments will however require continued respect for existing commitments and a renewed commitment from the Nigerian government to remain competitive. We believe that the suggestions made by the OPTS which we fully support and our own proposals are essential to achieving these objectives.



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
<p>Ensure transfer of all of the JV's businesses into the JV</p>	<p>S. 260.(1) With effect from the commencement of this Act, the interests held by the Nigerian National Petroleum Corporation in respect of the existing joint operating agreements for the exploration and production of petroleum in Nigeria shall be vested in the National Oil Company.</p>	<p>S. 260 (1). With effect from the commencement of this Act, the interests held by the Nigerian National Petroleum Corporation in respect of the joint ventures for the exploration and production of petroleum in Nigeria <u>and in respect of any other businesses conducted by the joint ventures established pursuant to those joint operating agreements</u>, shall be vested in the National Oil Company.]]</p>	<p>The language in the PIB does not clearly include ventures such as EGTL and the Agura IPP project currently being undertaken by the NNPC/CNL Joint Venture. These projects were initiated by the FGN as an integral part of the JV's oil and gas operations and should be part of the JV.</p>
<p>Provide for an LJV Transition Plan that addresses the key issue of outstanding liabilities</p>	<p>No transition plan is currently provided for in the PIB.</p>	<p>S.260 (2) Upon the commencement of this Act, Parties to each joint venture (JV) for the exploration and production of petroleum in Nigeria shall develop a transition plan for the incorporation of the JV as an incorporated joint venture. Such a transition plan shall address the treatment of all outstanding liabilities in relation to each JV, including outstanding balances on any loans, carries, modified carries, cash call arrears and indebtedness to any third party on the basis that no party to a JV shall incur any loss or make any gain in respect of any outstanding liability of such JV or of any party thereto.</p>	<p>Given the specific details of the structures to be adopted in transitioning from UJVs to JVs, and the complexity of issues which will have to be addressed in the transition, it is unduly restrictive to impose an unachievable time limit for the incorporation of the limited liability companies to assume the assets of the UJVs. It is far better to proceed on the basis of a transition plan carefully developed by the parties to each JV. And to ensure the JV starts on a sound footing, it is crucial that the transition plan address the treatment of all outstanding liabilities.</p>



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
<p>Ensure that provisions on leases allow for the efficient development of satellite fields</p>	<p>280(6) Where the boundaries of selected petroleum mining leases join with respect to a single side of a single parcel, the petroleum mining leases shall be considered as one lease or where petroleum mining leases in the opinion of the Inspectorate consist of a single field the leases shall be considered as one petroleum mining lease, even if their boundaries do not join with another lease.</p>	<p>280(6) – (a) Where the boundaries of selected petroleum mining leases join with respect to a single side of a single parcel or the petroleum mining leases consist of a single field, the petroleum mining leases shall be considered as one lease.</p> <p>(b) Where the holder of a petroleum prospecting license has made multiple commercial discoveries within that petroleum prospecting license, the Inspectorate may, upon application by the holder of that petroleum prospecting license, grant one petroleum mining lease in respect of the multiple discoveries even if the boundaries of the multiple discoveries do not join with each other.</p>	<p>The proposed changes will facilitate the development of small satellite fields which are uneconomical to develop on a standalone basis thus allowing for a more efficient use of acreage, increased Nigerian contracting and more efficient usage of the capacity of facilities.</p>
<p>Preserve Existing Deepwater PSC Terms until Cost Recovery</p>	<p>(v) Any profit oil shares of deep water production sharing contract shall be reviewed by the National Oil Company in line with subsection 16(1) and (2) of the Deep Offshore and Inland Basin Production Sharing Contract Act, 1999, in order to facilitate the payment of Corporate Income Tax and Nigerian Hydrocarbon Tax and by taking into consideration the new royalties applicable, provided, however, that all production sharing contracts shall</p>	<p>(4) Any reviewed terms shall not come into effect until after the full cost recovery of the initial costs of developing the deepwater facilities and shall provide for a one time adjustment of profit oil reflecting the newly reviewed terms, upon the signing of the respective amendment to the contract.</p>	<p>All existing tax credits and allowances provided before enactment of the new legislation should be allowed until cost recovery. It was on the reliance of such terms that investment decisions were made and such terms should not be revised until investors have at the minimum recovered their costs.</p>



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
<p>EGTL/WAGP classified as Domgas</p>	<p>adhere to the provisions of Chapter 5 of Part VIII of this Act and the review shall ensure that the contracts shall be economically beneficial to the Government.</p> <p>“midstream domestic gas operations” means the same operations as midstream export gas operations, but where 60% or more than 60% of the BTU content of the gas being transported, stored, processed, extracted, converted or liquefied is dedicated to domestic use in Nigeria as determined from time to time by the Agency, subject to the domestic gas supply obligations that may be imposed by the Minister.</p>	<p>“midstream domestic gas operations” means the same operations as midstream export gas operations, but where 60% or more than 60% of the BTU content of the gas being transported, stored, processed, extracted, converted or liquefied is dedicated to domestic use in Nigeria as determined from time to time by the Agency, subject to the domestic gas supply obligations that may be imposed by the Minister, and shall include gas supply to and the operations of the <u>West African Gas Pipeline and the Escravos Gas To Liquids Project.</u></p>	<p>WAGP – The WAGP Project was undertaken by the project sponsors with the support of ECOWAS and the governments of Nigeria, Benin, Togo and Ghana to promote regional economic development. Under the WAGP Treaty entered into between Nigeria, Benin, Togo and Ghana, Nigeria has treaty obligations to treat gas for transportation through the WAGP on the same terms as domestic gas.</p> <p>EGTL – The National Gas Supply and Pricing Policy (at page 5) recognizes gas to liquids industries as being part of the commercial domestic gas sector. The proposed change will simply align the PIB to the policy and provide sanctity of contract.</p>
<p>Proper definition of “upstream” and “midstream”</p>	<p>“midstream crude oil operations” means activities downstream of the measurement point(s) of petroleum mining leases or unrelated to petroleum mining leases with respect to the construction and operation of upgrading facilities for heavy oil or bitumen; construction and operation of crude oil transport pipelines, including the related</p>	<p>We propose that the definitions of upstream crude oil operations and upstream gas operation be redrafted thus- S. 526 Upstream Operations’: refers to all activities entered into for the purpose of finding and developing crude oil or natural gas and includes all activities involved in</p>	<p>There are significant fiscal, regulatory and operational consequences of defining the proper boundaries of “upstream” and “midstream”. The definitions proposed ensure that businesses which were established on an integrated basis continue to be operated and regulated on that basis.</p>



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
	<p>pumping stations; acquisition, operation, leasing, rental or chartering of barges, coastal or ocean going tankers, rail cars and trucks for the transport of crude oil; construction, leasing and operation of crude oil tank farms and other storage facilities; construction and operation of refineries; other construction and activities incidental thereto and related administration and overhead.</p> <p>“midstream export gas operations” means activities downstream of the measurement points of petroleum mining leases or unrelated to petroleum mining leases with respect to the construction and operation of natural gas transport or transmission pipelines, including the related compressor stations; construction and operations of facilities to compress, transport and deliver compressed natural gas (“CNG”), construction and operations of gas processing facilities, producing ethane, propane, butane and natural gas liquids and marketable natural gas; construction and operation of underground or above ground facilities for the storage of</p>	<p><u>exploration and in all stages through, up to and including the production, transportation and storage of crude oil and natural gas from the area of production to the point where crude oil, condensates, or natural gas are fiscalised at the point of custody transfer;</u></p> <p>“upstream crude oil operations” means activities upstream of the where crude oil, condensates, or natural gas are fiscalised at the point of custody transfer, related to the winning of crude oil and associated gas through wells or mining from petroleum reservoirs; drilling, completing and operation of wells producing crude oil and associated gas; construction and operation of gathering lines and manifolds for crude oil, associated gas and water; construction and operation of high and low pressure separators, separating crude oil, associated natural gas and water; construction and operation of facilities to treat or condition crude oil, associated natural gas and water; flaring of natural gas; compression and reinjection of associated natural gas in reservoirs of the petroleum mining lease; construction and operation of facilities for the production of electricity or heat from associated natural gas or other fuels as energy source for the winning of crude oil; injection or re-injection of water into the reservoirs of the petroleum mining lease;</p>	



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
	<p>natural gas; ethane extraction plants; construction and operation of gas to liquids ("GTL") plants; construction and operation of liquefied natural gas ("LNG") plants, and related LNG terminals; acquisition, operation or chartering of LNG tankers for coastal and marine transportation; other construction and activities incidental thereto and related administration and overhead and where more than 40% of the BTU content of the gas being transported, stored, processed, extracted, converted or liquefied is dedicated to exports from Nigeria as determined from time to time by the Agency, subject to the domestic gas supply obligations that may be imposed by the Minister.</p> <p>"upstream gas operations" means the winning or obtaining of natural gas in Nigeria by or on behalf of a company on its own account for commercial purposes and shall include any activity or operation related to natural gas that occurs up to the point at which downstream gas begins;</p>	<p><u>pipeline transportation of hydrocarbons from the well head to the terminal and metering of crude oil at the point of custody transfer prior to transportation from the upstream operations terminal; construction, leasing and operation of crude oil tank farms and other storage facilities; construction and operation of fixed or floating platforms or other vessels required for the winning of crude oil from the petroleum mining lease; construction and operation of fixed or floating storage facilities of crude oil in the lease area; transportation to and from the petroleum mining lease of personnel, goods and equipment; metering of well stream fluids; metering of crude oil at the measurement point, other construction and activities incidental thereto and related administration and overhead.</u></p> <p>"upstream gas operations" means activities upstream of the point where crude oil, condensates, or natural gas are fiscalised at custody transfer, related to the winning of non-associated gas and condensates through wells from petroleum reservoirs; drilling, completing and operation of wells, producing natural gas and condensates; construction and operation of gathering lines and manifolds for natural gas, condensates and water; construction and operation of separators or condensers, separating natural gas, condensates and water; construction and operation of</p>	



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
	<p>“upstream crude oil operations” means activities upstream of the measurement points of a petroleum mining lease, related to the winning of crude oil and associated gas through wells or mining from petroleum reservoirs; drilling, completing and operation of wells producing crude oil and associated gas; construction and operation of gathering lines and manifolds for crude oil, associated gas and water; construction and operation of high and low pressure separators, separating crude oil, associated natural gas and water; construction and operation of facilities to treat or condition crude oil, associated natural gas and water; flaring of natural gas; compression and reinjection of associated natural gas in reservoirs of the petroleum mining lease; construction and operation of facilities for the production of electricity or heat from associated natural gas or other fuels as energy source for the winning of crude oil; injection or re-injection of water into the reservoirs of the petroleum mining lease; construction and</p>	<p>facilities to treat or condition natural gas, condensates and water; construction and operation of facilities for the production of electricity or heat from natural gas or other fuels exclusively for the purpose of serving as energy source for the winning of natural gas; construction and operations of gas processing facilities, producing natural gas liquids and marketable natural gas; injection or re-injection of water into the reservoirs of the petroleum mining lease incidental to the winning of natural gas; construction and operation of fixed or floating platforms or other vessels required for the winning of natural gas from the petroleum mining lease transportation to and from the petroleum mining lease of personnel, goods and equipment incidental to the winning of natural gas; metering of well stream fluids; metering of natural gas and condensates at the measurement point; other construction and activities incidental thereto and related administration and overhead.</p> <p>“midstream crude oil operations” means activities downstream of the point where crude oil, condensates, or natural gas are fiscalised at custody transfer with respect to the construction and operation of upgrading facilities for heavy oil or bitumen; construction and operation of crude oil transport pipelines, including the related pumping stations; acquisition, operation,</p>	



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
	<p>operation of fixed or floating platforms or other vessels required for the winning of crude oil from the petroleum mining lease; construction and operation of fixed or floating storage facilities of crude oil in the lease area; transportation to and from the petroleum mining lease of personnel, goods and equipment; metering of well stream fluids; metering of crude oil at the measurement point prior to transportation from the petroleum mining lease; other construction and activities incidental thereto and related administration and overhead.</p> <p>“upstream gas operations” means activities upstream of the measurement points of a petroleum mining lease, related to the winning of non-associated gas and condensates through wells from petroleum reservoirs; drilling, completing and operation of wells, producing natural gas and condensates; construction and operation of gathering lines and manifolds for natural gas, condensates and water; construction and operation of separators or condensers, separating natural gas,</p>	<p>leasing, rental or chartering of barges, coastal or ocean going tankers, rail cars and trucks for the transport of crude oil; construction and operation of refineries; other construction and activities incidental thereto and related administration and overhead.</p> <p>“midstream export gas operations” means activities downstream of the point where crude oil, condensates, or natural gas are fiscalised at custody transfer with respect to the construction and operation of natural gas transport or transmission pipelines, including the related compressor stations; construction and operations of facilities to compress, transport and deliver compressed natural gas (“CNG”), construction and operations of gas processing facilities, not directly related to the winning of natural gas from the petroleum mining lease, producing ethane, propane, butane and natural gas liquids and marketable natural gas; construction and operation of underground or above ground facilities for the storage of natural gas; ethane extraction plants; construction and operation of liquefied natural gas (“LNG”) plants, and related LNG terminals; acquisition, operation or chartering of LNG tankers for coastal and marine transportation; other construction and activities incidental thereto and related administration and overhead and where more than 40% of the BTU content of the gas being transported,</p>	



Key Issues	Inter Agency Submission	Alternative Language (Proposed Wording)	Justification
	<p>condensates and water; construction and operation of facilities to treat or condition natural gas, condensates and water; construction and operation of facilities for the production of electricity or heat from natural gas or other fuels exclusively for the purpose of serving as energy source for the winning of natural gas; injection or re-injection of water into the reservoirs of the petroleum mining lease incidental to the winning of natural gas; construction and operation of fixed or floating platforms or other vessels required for the winning of natural gas from the petroleum mining lease; transportation to and from the petroleum mining lease of personnel, goods and equipment incidental to the winning of natural gas; metering of well stream fluids; metering of natural gas and condensates at the measurement point prior to transportation from the petroleum mining lease; other construction and activities incidental thereto and related administration and overhead.</p>	<p>stored, processed, extracted, converted or liquefied is dedicated to exports from Nigeria as determined from time to time by the Agency, subject to the domestic gas supply obligations that may be imposed by the Minister.</p>	