

OPERATING IN THE NEW UPSTREAM:

From Regulatory Overhaul to Bottom-Line Impact

A concise guide to **Nigeria's 2025 Oil Block Bid Round** Navigating Nigeria's Petroleum Industry Act (PIA) 2021 and related 2025 compliance instruments for sustained operations.



The PIA and the New Regulatory Architecture

Nigeria's oil and gas industry has long been a cornerstone of the economy, contributing significantly to government revenue and foreign exchange.¹ However, the sector has faced numerous challenges, including regulatory bottlenecks and environmental concerns.

To address these issues, the Nigerian government initiated a comprehensive review of its regulatory framework, culminating in the enactment of the **Petroleum Industry Act (PIA) in 2021**.



Before the PIA, upstream regulation was largely administered by **the Department of Petroleum Resources (DPR)** by the Ministry of Petroleum Resources. Since 2021, the PIA has placed upstream oversight squarely under the **Nigerian Upstream Petroleum Regulatory Commission (NUPRC)**.²

Key Objectives of the Regulatory Overhaul

- **Attract Investment:** Revise the fiscal regime to ensure fair revenue sharing and global competitiveness.
- **Elevate Environmental Stewardship:** Mandate adherence to best practices in environmental management and remediation.³
- **Streamline Operations:** Establish clear timelines, structured work programmes, and a more transparent upstream ecosystem.
- **Enhance Accountability:** Introduce strict reporting mechanisms, host community trusts, and stringent fiscal audits.



Practical Implication: Compliance is now a core operating discipline. For operators, regulatory alignment is directly tied to license security and operational continuity.

Licensing and Fiscal Compliance

Licensing & Work Programmes⁴

- **Submit detailed work programmes** outlining exploration or production activities, clear timelines, and financial commitments for PPLs/PMLs.
- **Execute approved plans strictly;** failure to meet minimum work obligations can result in the immediate expiration of an operator's license.

Timelines & Relinquishment

- **Mandatory area relinquishment** at defined intervals is required if exploration activities do not progress as planned.⁵
- **Deters speculative holding** of acreage without meaningful development, requiring companies to carefully prioritize their portfolio.

Fiscal Reporting & Audit⁶

- **Maintain accurate records** of production volumes, OPEX/CAPEX, and revenue. Licensees must submit half-yearly updates on progress.⁷
- **Subject to NUPRC audit;** any data discrepancies or lack of substantiation during audits may result in severe operational penalties.⁸

Tax Regime & Incentives

- **Hydrocarbon Tax (HCT) + CIT:** Replaces PPT. Must be calculated with allowable deductions like HCDT contributions under the 2025 Tax Act.⁹
- **Cost Efficiency Incentives (2025):** Operators tracking OPEX below benchmarks qualify for tax credits. Requires robust cost tracking, internal controls, and audit readiness to substantiate claims.¹⁰

Host Communities, Environment & Safety



Host Community Trusts

- **Establish HCDTs¹¹:** Mandates contributing 3% of actual operating expenditure from the preceding year.¹²
- **Statutory obligation:** Enforceable by the NUPRC, replacing previous optional philanthropy.¹³



Sabotage & Vandalism

- **Disruption clauses:** Sabotage or vandalism disruptions may result in a reduction of contributions for the affected period.¹⁴
- **Risk management:** Implementation must be cautious to prevent resentment and further operational instability.



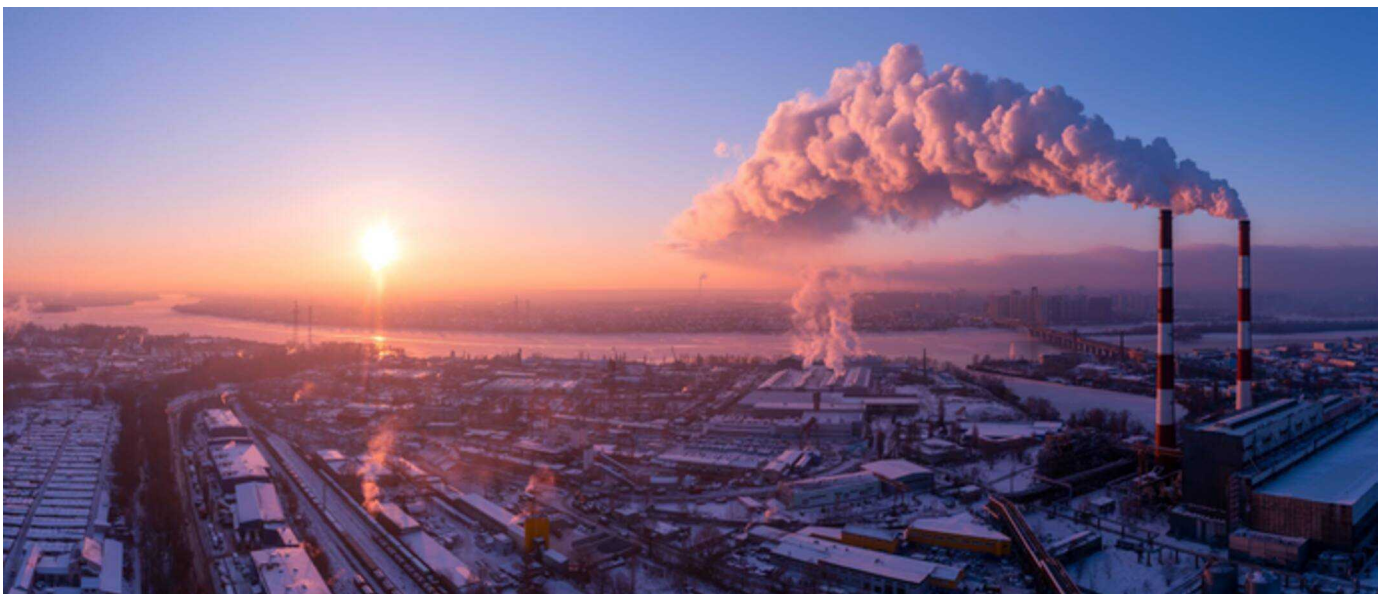
Management & Remediation

- **Environmental Management:** Operators must proactively develop and implement EMPs.¹⁵
- **Remediation Fund:** Requires financial contributions for the rehabilitation of negative environmental impacts.¹⁶



Gas Flaring Regulations¹⁷

- **Strict permitting:** Gas flaring is subject to mandatory permits and penalties for non-compliance.¹⁸
- **Gas utilization:** Operators are heavily encouraged to invest in commercialization projects to reduce flaring.¹⁹



Profitability, Risk, and Incentives

3% of OPEX

Statutory annual contribution to Host Community Development Trusts (HCDDTs).

HCT + CIT

Consolidated upstream tax framework replacing the Petroleum Profits Tax (PPT).

Order 2025²⁰

Cost Efficiency Incentives yield tax credits for sub-benchmark OPEX.

Rising Compliance Costs

Expanded environmental and host community obligations strictly increase baseline operating costs. Operators must allocate capital for specialist personnel, regulatory reporting systems, EMP rollouts, and gas utilization infrastructure to avoid severe flaring penalties.

Risk to License Security

Regulatory discipline is now a central determinant of asset value. Failure to comply with PIA operational mandates can trigger suspension, non-renewal, or outright revocation of licenses²³—directly destroying acreage revenue streams and corporate valuation.

Restrictive Cost Recovery

The PIA introduces a more structured, rigid cost-recovery framework. Broad interpretations of allowable costs are no longer tenable. Expenditures must rigorously meet statutory criteria, strictly align with NUPRC-approved budgets,²¹ and demonstrate direct relevance.²²

Community Disruptions

Community unrest remains a primary threat to production uptime. While the PIA allows for HCDDT contribution reductions in the event of sabotage, leveraging this clause requires immense caution and proactive engagement to prevent escalating disputes.

The Upside: Cost Efficiency Incentives Order 2025

The Order establishes benchmarks for unit operating costs. Operators who consistently achieve OPEX below these benchmarks qualify for substantial tax credits. To unlock this opportunity, companies must invest in advanced cost-management systems, ensure regular compliance reporting, and pass rigorous third-party verifications of realized savings.

Turning Compliance into Competitive Advantage

The Petroleum Industry Act has fundamentally reshaped Nigeria's upstream landscape into a structured, transparent, and performance-driven regime. Compliance is no longer a peripheral obligation but a central feature of operational continuity, financial optimization, and long-term license security.

Strategic Focus Areas



Strategy



Analytics



Environment



Community



Security

Immediate Next Steps for Operators

- 01 Embed Core Strategy**
 Integrate compliance mapping into strategic planning cycles. Rigorously execute work programmes to avoid acreage relinquishment.
- 02 Upgrade Analytics & Tracking**
 Deploy robust cost-tracking tools to qualify for tax credits under the Cost Efficiency Incentives Order 2025.
- 03 Invest in the Environment**
 Develop Environmental Management Plans (EMPs) and invest in gas monetization to circumvent severe flaring penalties.
- 04 Sustain Community Relations**
 Establish Host Community Development Trusts (HCDTs) swiftly. Engage proactively to protect operations from disruption.
- 05 Fortify Audit Readiness**
 Build comprehensive evidence packs. Schedule periodic internal reviews to safeguard licenses and protect asset valuation.



Preparedness is the New Competitive Edge

Operators that align rigorous regulatory discipline with operational efficiency will be best positioned to thrive. Contact our advisory team to conduct a comprehensive upstream regulatory alignment assessment.

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