



APPROVED FRAMEWORK FOR SEAMLESS OPERATIONALISATION OF DOMESTIC CRUDE OIL SUPPLY OBLIGATIONS (DCSO)

Following the need to eliminate the teething problems associated with the implementation of Domestic Crude Oil Supply, a tripartite committee was set up by the Commission, comprising of representatives of Nigeria Upstream Petroleum Regulatory Commission (NUPRC), NNPC Ltd (NNPCL), Oil Producers Trade Section (OPTS), Independent Petroleum Producers Group (IPPG) and Crude Oil Refiners-Owners Association of Nigeria (CORAN), and Dangote Refinery, to come up with recommendations for ensuring seamless operations and avoidance of shortages of crude oil supply to domestic refineries in Nigeria.

Pursuant to the provisions of **Section 109 of the PIA 2021, Part III and IV of the Production Curtailment and Domestic Crude Oil Supply Obligations Regulations of 2023** and the outcome of the Committee's engagement, the NUPRC has developed the following framework, the details of which is contained in the **Guidelines for the Operationalisation of the Domestic Crude Oil Supply Obligations (DCSO)**.

The Guidelines shall serve as the guiding regulatory template for supply of crude oil to domestic refineries by the oil producing companies.

| Item | S/No | Provision |
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| A. Legal Framework | 1 | Sections 109 and 231 of Petroleum Industry Act 2021 |
| | 2 | Production Curtailment and Domestic Crude Oil Supply Obligation Regulations 2023 |
| B. Procedure For Implementation of Domestic Crude Oil | 3 | The Nigeria Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) shall supply the Commission on a regular basis the crude oil requirements of refineries in operation and where |

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| Supply Obligations (DCSO) | | shortages or inadequate supply conditions occur, the NMDPRA shall report such conditions to the Commission. |
| | 4 | Crude oil produced by a lessee shall be subject to DCSO imposed by the Commission, provided that the lessee shall be entitled to export any volume of crude oil more than its domestic crude oil supply obligation. |
| | 5 | The Commission shall publish on its official website and in three national newspapers the domestic crude refining requirements of operating refineries in Nigeria based on information provided to the Commission by the NMDPRA on the crude oil requirements of refineries in operation in Nigeria pursuant to section 109 (3) of the PIA 2021. |
| | 6 | The publication in B(5) above shall be for a period of six months on a bi-annual basis on the 1st of January and 1st of July of each year and shall include the following information — <ul style="list-style-type: none"> a. total number of operating refineries in each period; b. name plate crude requirements of each refinery; c. actual forecasted daily crude requirement of each refinery for the publication period ; d. name and location of each refinery; and e. crude specification or grade for each refinery. |
| | 7 | In addition to the information on the domestic crude requirement of operating refineries, the Commission shall provide corresponding information on its website at the time of publication under these guidelines, on the - <ul style="list-style-type: none"> a. production forecast of each producing licensee or lessee for the corresponding period based on a daily rate; b. name, location and the terminal stream of each producing licence or lease |

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| | | <p>c. name of the licensee or lessee of each producing licence or lease; and</p> <p>d. crude specification or quality produced from each licence or lease.</p> |
| C. Procedure for Domestic Crude Oil Requirement Allocation | 8. | <p>(a) The Commission, prior to issuing a request for quotation (RFQ), shall, based on the information in B(5) and B(6), develop metrics that allocates a portion of the forecasted production to be dedicated to domestic consumption by the lessees on a transparent and non-discriminatory basis, to avoid shortages.</p> <p>(b) Notwithstanding the provisions of 8(a), a lessee is at liberty to relate with a refinery for additional crude oil supplies in an agreed willing buyer willing seller terms.</p> <p>(c) Price for crude supply to domestic refineries by the lessee are to be mutually negotiated and agreed, taking into consideration, the fiscal oil price differentials published by the Commission for relevant month.</p> <p>(c) Where a refinery is not successful at sourcing crude oil supply from lessees, the Refinery's crude preferences is sent to Commission before 15th Business Day of M-3 for intervention.</p> |
| | 9. | The Commission issues an RFQ for required crude oil grades and volumes to Lessees. 1 st – 2 nd Business Day of M-2. |
| | 10 | Lessees responds to the RFQ according to the template provided by the Commission by the 5 th Business Day of M-2. |
| | 11 | The Commission shares the bid with the Refiner 6 th – 7 th Day of M-2. |
| | 12 | <p>(a). The refiner enters into a Sales and Purchase Agreement (SPA) with the Lessee on a Willing Buyer, Willing Seller (WBWS) basis on or before 8th – 11th Day of M-2.</p> <p>(b). At the end of every six(6) month cycle, the Commission shall publish the performance of Lessees and Refineries demonstrating Domestic Supply records.</p> |
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| | | <p>both parties reasonability, the Commission may impose DCSO.</p> <p>(b) Where the stalemate / un reasonability is on the price, the commission should based its position on fair price based on comparison with its published Fiscal Oil Price Differentials.</p> |
| | 14 | <p>In the event of a stalemate between both negotiating parties and at the instance of un reasonability on the part of the lessee, the Commission shall impose DCSO.</p> <p>a) In the event that a DCSO is imposed, it shall be communicated to the Lessee on or before the 14th business day of M-2.</p> <p>b) In the event that the Commission determines that the un reasonability is on the part of the Refiner, there shall be no DCSO imposed on account of that contemplated transaction.</p> <p>c) All allocated DCSO volumes shall be fully discharged into the refinery it is meant for and fully utilized for domestic refining.</p> |
| | 15. | The Commission to Schedule a Domestic Crude Refining Requirement (DCRR) stakeholders meeting between the 10th and 15th Business Day of M-2 |
| | 16. | The Monthly Production Curtailment and lifting programming meeting to hold between 16 th – 19 th Business Day of M-2. |
| D. Payment Instruments | 17 | <p>Letter of Credit:</p> <p>The payment for Crude supply shall be secured using a Letter of Credit as follows:</p> <p>a) The Refiner's Bank shall submit to the office of the lessee, six(6) Banking days before the first day of laycan, an acceptable irrevocable Letter of Credit (Shipment by-Shipment) issued by a reputable and lessee approved Nigerian / International bank in the current value of the cargo of Crude Oil delivered by lessee to refinery as security for the Crude Oil lifted.</p> <p>b) Such Documentary Letter of Credit shall be for a validity period of ninety (90) days with effect</p> |

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| | | <p>from the second day of Laycan and with a minimum rating of BBB or as agreed by lessee.</p> <p>c) Where the lessee and the refiner have a long term supply and purchase contract, they can have a revolving stand by letter of credit (SBLC) as a security for the supply as part of their sales and purchase agreement.</p> |
| | 18 | <p>Bank Guarantee</p> <p>Notwithstanding the provisions of D(17), the Lessee may wish to accept a Bank Guarantee from refiners with smaller output capacities as follows:</p> <p>a) The bank guarantee shall be an irrevocable, revolving guarantee Issued by a reputable Nigerian bank for an amount equal to the sales value of the cargo of crude oil to be delivered to the refinery (or current value of a minimum volume of crude oil agreed between the parties).</p> <p>b) The Bank Guarantee shall in the first instance, be provided to the seller at least seven (7) days prior to commencement of initial delivery and be valid for one year with initial expiry date set to December 31st of the issuance year.</p> <p>c) The Bank Guarantee shall be drawable on demand by the seller without buyer's consent for any owed amounts and a replacement or extension is required no later than thirty (30) days prior to expiry and issued by the issuing bank.</p> |
| E. Currency of Payment | 19 | <p>a) The payment shall be in either United States Dollar (\$) or Naira (N) or both.</p> <p>b) Where the payment is in both currencies, the payment split shall be as agreed in the SPA between the Producer and the Refiner.</p> |
| F. Logistics Scheduling | 20 | <p>(a). The Lessee and the Refiner shall agree on the loading/delivery window not later than 25th of M-2 from the 1st day of LAYCAN</p> |

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| | | (b) In the case of verifiable operational constraints, the lessee must notify the refiners of the revised loading/delivery window not later than twenty one (21) days from the 1st day of LAYCAN |
| | 21 | The Refiner shall ensure adequate logistics arrangements to load within the agreed laycan (or delivery window) to avoid tank top/production curtailment, or shall be subject to penalties stated in Section 27 of this submission. |
| G. Continuous Obligation | 22 | Where a Lessee enters a long term supply contract with the refiner in fulfilment of his Domestic Crude oil supply obligation, the obligation to sell crude to the Refiner by the Lessee is reliant upon the refinery being in operation. |
| H. Crude Oil Diversion | 23 | <p>a. All DCSO allocated cargoes must be discharged into the Refinery facility they are programmed for and shall not be diverted or swapped.</p> <p>b. Utilization of any DCSO allocation by any Refiner for any purpose other than domestic processing, without a written approval by the Commission shall attract suspension from DCSO allocation for a period determined by the Commission in addition to any other penalty that may be imposed by the Commission including possible prosecution of the offender(s).</p> |
| I. Defaults | 24 | <p>Failure to respond to Commission's Request for Quotation (RFQ):</p> <p>(a) The Penalties specified in Section 18(1) of the Production Curtailment and Domestic Crude Oil Supply Obligation Regulations 2023 shall apply to any Lessee that failed to respond to NUPRC's request for Quotation or respond outside the time frame specified in this Guideline.</p> <p>(b) lessees whose production is impacted by Force Majeure (FM) situations shall also provide a response to the RFQ with an attachment of their official declaration of FM, where applicable.</p> |
| | 25 | Failure to enter into a contract after imposition of the DCSO or deliver crude oil under the contract for the supply of the DCSO: |

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| | <p>Subject to the Procedure under Section 231 of the PIA 2021, the penalty specified under Section 18(2) of the Production Curtailment and Domestic Crude Oil Supply Obligation Regulations 2023 shall apply to any lessee who fails to –</p> <ol style="list-style-type: none"> 1) Enter into a contract for the delivery of the DCSO imposed under Section C(13) and C(14) of this submission 2) Deliver under a contract for the supply of the DCSO volumes except for- <ul style="list-style-type: none"> ▪ Force Majeure as defined under the Sales and Purchase Agreement (SPA). ▪ Default of the refiner under the SPA; or ▪ Any other reason acceptable to the Commission |
| 26 | <p>Default of Payment: <i>In the occurrence of a default in payment by the Refiner, the Commission shall not allocate DCSO to the defaulter for a period to be determined by the Commission in addition to the penalty contained in the Sales Agreement between the refiner and the Lessee.</i></p> |
| 27 | <p>Failure to Lift within the scheduled laycan (or delivery window):</p> <p>In the event of failure to lift within the scheduled laycan (or delivery window) by the Refiner, resulting in <u>tank top/production curtailment</u>, the Defaulting Refiner:</p> <ol style="list-style-type: none"> a) Shall be suspended by the Commission from receiving DCSO allocation for a period of time to be determined by the Commission; and b) Will be liable to pay a fine equivalent to the delayed Royalty from the deferred volume in addition to other failure to lift penalties agreed in the SPA with the lessee |
| 28 | <p>Failure to offtake crude:</p> <p>The following penalties shall apply to any Refiner - that failed to offtake the allocated DCSO (except in the event of force Majeure as defined in the SPA), in</p> |

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| | | <p>addition to any other agreed penalty in the SPA between the Lessee and the refiner:</p> <p>a) For pipeline, barging or trucking deliveries, take or pay conditions shall apply.</p> <p>b) For marine deliveries, the lessee shall sell the parcel of the crude oil as a distressed cargo and the defaulting refiner shall be liable for liquidated damages as provided in the SPA</p> |
| | 29 | <p>Failure to supply crude:</p> <p>Where the lessee failed to supply the allocated DCSO resulting in shortages for the refinery (except in the event of force Majeure as defined in the SPA), the defaulting lessee will be liable to penalty specified under Section 18(2) of the Production Curtailment and Domestic Crude Oil Supply Obligation Regulation of 2023 or its amendments.</p> |
| J. Definition of terms | 30 | Banking Days means the days when banks in Abuja, London and New York are open for business (New York being for payment purposes only). |
| | 31 | Bank Guarantee means the guarantee given by the bank on behalf of the applicant to cover a payment obligation to a third party. |
| | 32 | Business Day (s) means the days when banks in Abuja, London and New York are open for business. |
| | 33 | Domestic Crude Oil Supply Obligations (DCSO) Means the obligations of an upstream crude oil producer (Lessee) to dedicate a specific volume of produced crude oil towards the domestic refineries as stipulated in Section 109 of the Petroleum Industry Act. |
| | 34 | Default of Payment has the meaning ascribed in the SPA |
| | 35 | Delivery Window means agreed-upon period during which the deliveries of crude oil from the facility of the producer to the refineries via pipeline, barging and trucking are scheduled to occur. |
| | 36 | Force Majeure has the meaning ascribed in the SPA |
| | | Laycan Means , in the context of Crude Oil, an advised 2-Day period commencing from 0001 hours |

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| | | on the first Day of date-range and terminating at 2359 hours on the last Day of such date-range within which Refiner's nominated Vessel, shall arrive at the Loading Terminal |
| 37 | | Loading Terminal Means , for the purposes of Crude Oil delivery under these recommendations, the berth, dock, anchorage, submarine line, single point or single berth mooring facility, off-shore location, alongside vessels or lighters or any other place within Nigeria at which Crude Oil is to be delivered under these guidelines. |
| 38 | | M means the Month of lifting/offtake. |
| 39 | | Letter of Credit means a Documentary letter of credit to be procured by the Refinery issued by Lessee's approved bank, which shall guarantee Refinery's commitment of payment to Lessee in the event of Refinery's default after lifting the crude oil on the terms of Commercial Agreement. |
| 40 | | SSHINC Saturday, Sunday, Holiday, inclusive. |
| 41 | | ETA means the estimated time of arrival of the Vessel at the Loading Terminal. |
| 42 | | Crude Oil means crude oil or condensate or blend of both produced by the licensee or lessee from the lease area |
| 43 | | Smaller output capacity means refinery with processing capacity of 50,000 bpd or below. |

| Approved by | | | |
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| <p>Engr. Gbenga Komolafe <small>FNSE,</small></p> <p>(Commission Chief Executive, Nigerian Upstream Petroleum Regulatory Commission)</p> |  | | |
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