DOMESTIC CRUDE SUPPLY OBLIGATION (DCSO) FAQ

1. **What is the Domestic Crude Supply Obligation (DCSO)?** The Domestic Crude Supply Obligation (DCSO) is a regulatory requirement mandating oil-producing companies in Nigeria to allocate a portion of their crude oil production for domestic refining. This ensures sufficient feedstock for local refineries and enhances national energy security, in line with Section 109 of the Petroleum Industry Act (PIA) 2021.

2. **Why was the DCSO introduced in Nigeria?** The DCSO was introduced to:

   - Ensure a steady supply of crude oil to domestic refineries.
   - Reduce Nigeria's dependence on imported refined petroleum products.
   - Promote local refining capacity and support the growth of the downstream sector.
   - Enhance energy security and stabilize the domestic market.

3. **Who is responsible for enforcing the DCSO?** The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) oversees the enforcement of the DCSO.

4. **How does the Commission determine the National Domestic Crude Supply requirement?** NUPRC receives information from NMDPRA on a biannual basis (by December 15 and June 15). This data, along with production forecasts submitted by producers/lessees, is published on the Commission's website and in three national newspapers by December 31 and June 30 each year.

5. **How is the DCSO determined?** DCSO is determined using a mathematical model taking into cognizance the following:

$DCSR_n$ = National Domestic Crude Supply Requirement

- **$Prod_i$** = Company's Production Forecast
- **$Prod_n$** = National Production Forecast
- **TAR_i** = Company's Technical Allowable Rate (TAR)
- **TAR_n** = National Technical Allowable Rate (TAR)

For Joint Ventures (JV), the above model is adjusted based on the equity participation of each partner.

6. **What percentage of crude oil production is allocated for domestic supply?** The allocation percentage is determined annually by NUPRC based on refining capacity, market demand, and Government policy directives.

7. **Who are the primary beneficiaries of the DCSO?** The primary beneficiaries include:

- Local refineries (public and private)
- Petrochemical industries
- Other approved domestic consumers

8. **How is the DCSO enforced?** Oil producers must comply with the allocations set by NUPRC. Non-compliance may result in administrative penalties, fines, operational suspensions, or other regulatory actions in accordance with the Production Curtailment and Domestic Crude Supply Obligation Regulations

9. **What constitutes DCSO default**

A. If a refiner refuses/fail to honour his obligation in terms of:

i. Response to the producer's notification on offer of cargo

ii. Accept the cargo

iii. Put in place acceptable commercial/payment instrument as prescribed in the DCSO guideline

iv. Fix vessel within the acceptable timelines in the guideline

v. Satisfy laycan timelines.

B. If the producer equally fails to honour his obligations in terms of:

i. Full compliance with dedicated volumes adviced by NUPRC

ii. Indiscriminate revision of laycans

10. **Consequence of defaulting?**

In the occurrence of DCSO default, the following consequences in line with relevant sections of the DCSO regulation, guideline and framework in addition to the consequences below will apply:

i. "Take or pay" may be imposed on the refinery

ii. Denial of export permit on the volume designated for DCSO

iii. Financial penalty to applicable party.

11. **How do an Operator (lessees) or domestic refiner become aware of its obligation.**

All Operators are notified of their Obligations on biannually (January 1 and July 1).

12. **Do NUPRC fix unit price of domestic crude obligation volume?**

No. The upstream activities are run on a deregulated pricing basis and the PIA under section 109 took cognizance of that and indicated that the pricing will be on a willing buyer willing seller basis. However, to ensure reasonability and fairness in pricing, the Commission has directed the producer/lessee and refiners to furnish the Commission of monthly offer/pricing of cargo quotes.

13. **How is the pricing of domestic crude determined?** The pricing of domestic crude in line with section 109 of the PIA 2021is based on international benchmarks, with adjustments for logistics, quality differentials, and regulatory frameworks. The process operates on a willing-buyer, willing-seller basis. However, in cases of pricing disputes, parties must report to NUPRC for resolution.

14. **Can oil companies export crude oil after meeting their DCSO?** Yes, companies can export any remaining crude oil after fulfilling their DCSO requirements.

15. **Under what terms will NUPRC grant exemptions?** If any of the terms in 9A holds, exemptions to export DCSO crude may be approved by NUPRC to avoid such cargoes from becoming distressed.

16. **Are modular refineries eligible to receive crude under the DCSO?** Yes, modular refineries licensed by NMDPRA can receive crude under the DCSO, provided they meet operational and regulatory requirements.

17. **How does the DCSO support Nigeria's energy security?** By ensuring a steady crude oil supply to local refineries, the DCSO helps:

- Improve fuel availability
- Reduce dependence on imports
- Stabilize the domestic market

18. **How is crude allocated to different refineries?** Allocation is based on refining capacity, technical efficiency, regulatory compliance, and strategic importance to national supply.

19. **How often is the DCSO policy reviewed?** The policy is reviewed periodically by NUPRC to align with market conditions, refining capacities, and national energy needs.

20. **How do new refineries apply for crude supply under the DCSO?** New refineries must obtain an NMDPRA license, demonstrate technical capability, and apply for crude allocation through NUPRC.

21. **Does the DCSO apply to all oil-producing companies in Nigeria?** Yes, all oil producers must comply with the DCSO as part of their operating conditions.

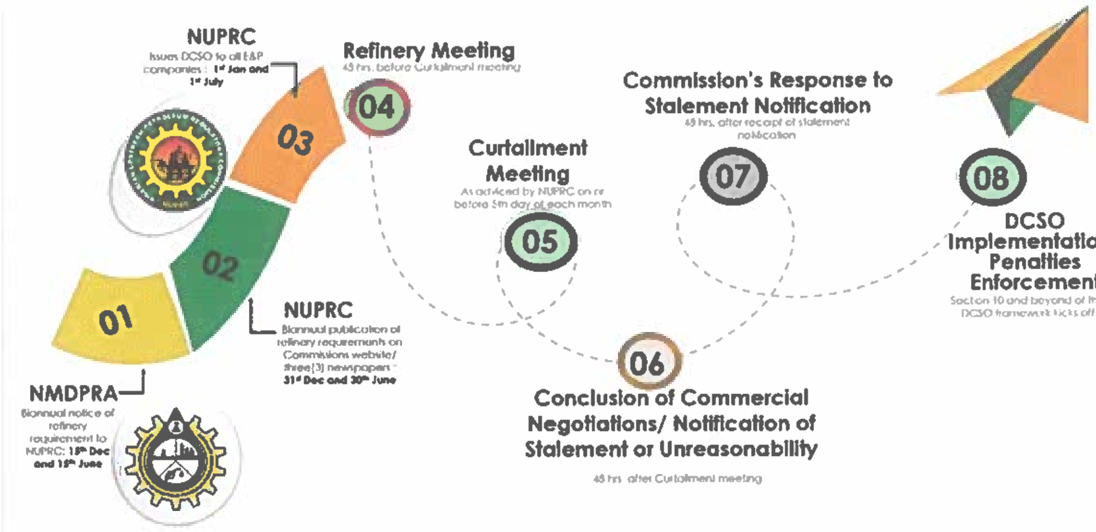
22. **How is crude supply logistics managed?** Logistics are managed through agreements between producers, transporters, and refinery operators, overseen by NUPRC.

23. **Can crude oil meant for domestic supply be exported in case of surplus refining capacity?** No. Only under exceptional circumstances and with government approval can surplus crude be exported.

24. **How does the Government monitor compliance?** Compliance is monitored through audits, reporting requirements, and on-site inspections conducted by NUPRC.

25. **Where can stakeholders get more information about the DCSO?** More details can be found on the NUPRC website.

26. **DCSO Timeline**



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