



**Complexities of Decommissioning and Abandonment in Nigeria's Oil and Gas Sector: Strategic Insights and Risk Management for Indigenous Companies and IOCs.**

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## Introduction

As Nigeria currently experiences a wave of divestments by international oil companies (IOCs), an increased attention is being directed towards the decommissioning of ageing infrastructure. This has prompted the urgent need for decommissioning strategies that are efficient, environmentally responsible, and economically viable. As IOCs pull back from onshore and shallow-water fields, the responsibility for managing these assets is increasingly falling to indigenous companies, creating both challenges and opportunities.

Decommissioning is the process of concluding oil and gas operations, both onshore and offshore. It involves the safe dismantling and removal of infrastructure, plugging of wells, and restoring the surrounding environment whether land(onshore), ocean, or seabed(offshore) to its pre-operations condition.

The Petroleum Industry Act 2021 (PIA)<sup>1</sup> defines decommissioning and abandonment together as ***“the approved process of cessation of operations of crude oil and natural gas wells, installations, plants and***

***structures, including shutting down an installation’s operations and production, total or partial removal of installations and structures where applicable, chemicals, radioactive and all such other materials handling, removal and disposal of debris and removed items, environmental restoration of the area after removal of installations, plants and structures.”***

In Nigeria, decommissioning and abandonment are becoming increasingly critical issues as the oil and gas sector matures, and several oil fields approach the end of their operational lifespan. Despite its significance, the country’s decommissioning landscape has long faced unique challenges. The PIA, however, seeks to address these issues by providing a clear framework for decommissioning, which includes the cessation of operations, removal of structures, and restoration of impacted environments. This legislation represents a significant step toward ensuring that Nigeria can manage the decommissioning and abandonment of its installations effectively and in accordance with global standards.

<sup>1</sup> Section 318 of Petroleum Industry Act 2021 (PIA)

Sustainability is central to Nigeria's decommissioning and abandonment processes, particularly in reducing environmental risks and safeguarding host communities. However, a critical aspect of these efforts lies in addressing and managing risks for both sellers and buyers involved in the transaction.

For sellers, effective derisking requires strict compliance with regulatory frameworks such as the Petroleum Industry Act (PIA), accurate evaluation of environmental and decommissioning liabilities, and the establishment of robust financial assurance mechanisms to cover anticipated costs. For buyers, the focus should be on conducting

comprehensive due diligence to identify and evaluate potential liabilities associated with decommissioning. This includes assessing the adequacy of existing decommissioning plans, verifying compliance with applicable local and international regulatory frameworks, and ensuring that the financial and operational risks are well-managed.

By embedding these measures into the decommissioning process, stakeholders can achieve a balance between regulatory compliance, financial prudence, and environmental stewardship, thereby contributing to a more sustainable energy transition in line with the best global practices.

## Regulatory Framework for Decommissioning and Abandonment in Nigeria

### 1. Petroleum Industry Act 2021

The PIA is Nigeria's primary legislation for regulating abandonment and decommissioning practices among oil and gas companies operating within the country. It seeks to meet the benchmarks established by global frameworks, which mandate that decommissioning and abandonment activities adhere to globally recognized petroleum industry standards.

Decommissioning and abandonment activities for oil and gas facilities in Nigeria are primarily governed by the foundational provisions of the PIA, which establishes key ground rules for such processes. These include obligations regarding environmental restoration, funding mechanisms for decommissioning and abandonment, and ensuring safety and sustainability. In addition, the Nigerian Upstream

Petroleum Regulatory Commission ("NUPRC" or "The Commission") and the Nigerian Midstream and Downstream Petroleum Regulatory Authority ("NMDPRA" or "The Authority") have issued specific regulations pursuant to the PIA to further elaborate and operationalize the decommissioning and abandonment requirements under the PIA, ensuring structured coordination and compliance with these overarching principles. The Commission issued the Upstream Decommissioning and Abandonment Regulations for upstream operations (referred to as the "Upstream Regulations"), while the Authority introduced the Midstream and Downstream Decommissioning and Abandonment Regulations for midstream and downstream operations (referred to as the "NMDPRA Regulations").

## 2. Procedure for Decommissioning and Abandonment Under the Upstream Regulations

The procedures for decommissioning and abandonment in the upstream sector include:

**a) Approval Process:** Before any decommissioning or abandonment activities commences in the upstream sector, companies must secure written approval from the Commission. In some cases, the Commission itself may notify the licensee, lessee, or permit holder when decommissioning becomes necessary, based on international petroleum industry standards.<sup>2</sup>

**b) Submission of a Decommissioning Program:** Operators are required to submit a Decommissioning and Abandonment Plan to the Commission within one year for existing facilities after the regulations' commencement. The plan must detail:

- Environmental, economic, and social considerations.
- The steps to responsibly manage the facility's end-of-life phase.
- Measures to minimize impacts on host communities and the surrounding environment.

This submission ensures that decommissioning activities align with global best practices while safeguarding local interests.

**c) Plan, Review and Approval:** Once submitted, the Commission has a statutory 120-day period to review the

Decommissioning Plan. If in the opinion of the Commission, the plan does not meet regulatory standards, the operator has 180 days to address and resubmit.

**d) Public Consultations:** Stakeholder engagement is integral to decommissioning in the upstream sector. Operators must conduct public consultations, ensuring that communities and other stakeholders are informed and involved in the decision-making process. It is important that these consultations are documented to maintain transparency. Feedback from these sessions often influences the final decommissioning strategy, making it more inclusive and effective.

**e) Establishment of a Decommissioning Fund:** Operators are obligated to establish a dedicated Decommissioning and Abandonment Fund with an independent financial institution. The purpose of this fund is to ensure that sufficient resources are available exclusively for decommissioning activities in Nigeria. Key requirements include:

- Notification of the fund's establishment within three months of the commencement of operations.
- Annual submission of account statements to the Commission.

This financial provision guards against scenarios where abandoned facilities pose risks due to insufficient funding.

**f) Post-Completion Report:** After completing decommissioning and abandonment, operators must submit an End-of-Operations Report to the Commission within six months. This report includes:

- A detailed account of the activities carried out.
- Compliance with safety and environmental standards.

Any residual obligations or plans for long-term monitoring of the site.

**g) Non-compliance and Penalties: The regulations impose strict penalties to enforce compliance:**

- Failure to submit a decommissioning plan within the stipulated timeframe attracts a fine of **\$500,000**.

Unauthorized decommissioning activities incur fines ranging from \$500,000 to \$1 million.

## **2.2. Procedure for Midstream and Downstream Decommissioning and Abandonment**

Decommissioning and Abandonment in the upstream sector share many similarities with midstream and

downstream decommissioning. However, there are some key differences, particularly in terms of timelines and penalties. Under the NMDPRA Regulations, operators are required to submit a Decommissioning and Abandonment Plan to the Authority, prioritizing environmental, social, and economic sustainability. For existing facilities, the Plan must be submitted within 120 days of the Regulations' commencement; for new ones, it must accompany the license application.<sup>3</sup>

At least 24 months before decommissioning, operators must prepare a detailed Decommissioning Plan, including environmental impact assessments, cost estimates, and post-decommissioning monitoring, following public consultations. Operators must establish a Decommissioning and Abandonment Fund in an escrow account within 120 days for new licenses or one year for existing ones, with contributions reviewed every five years. The Authority reviews the Plan within 120 days and may enforce additional measures if safety or environmental concerns arise. Non-compliance may result in fines, third-party interventions, or license revocation.

# **Other Regulatory Frameworks Governing Decommissioning and Abandonment in the Oil and Gas Sector.**

In addition to the PIA, the following frameworks regulate decommissioning and abandonment in Nigeria's oil and gas sector:

**a) Environmental Impact Assessment (EIA) Act (1992):**

Mandates environmental assessments for projects with potential environmental harm, including decommissioning activities as required under Section 236(6)(e) of the PIA.

<sup>3</sup> PART IV of the Midstream and Downstream Regulations

**b) National Oil Spill Detection and Response Agency (NOSDRA) Act (2006):** Establishes guidelines for managing oil spill-related waste to protect the environment and human health.

**c) Other Regulations and Conventions:** Include the Harmful Waste Act (1988), Petroleum (Drilling and Protection) Regulations, and various international standards promoting global best practices in environmental and operational safety.<sup>4</sup>

## Strategic Approaches for Indigenous Companies to Manage Decommissioning and Abandonment Risks During Divestments and Acquisitions

Decommissioning liabilities are a critical consideration during the transfer of ownership in the oil and gas sector. These liabilities encompass the financial, environmental, and operational responsibilities associated with safely shutting down and restoring facilities at the end of their productive life. Properly addressing these obligations ensures regulatory compliance, avoids disputes, and protects the environment. Below is a breakdown of how decommissioning responsibilities should be managed in the context of divestments and acquisitions:

**a) Due Diligence:** Before any transaction, it is essential to conduct thorough due diligence. This involves a detailed review of the asset's environmental, technical, and financial records to uncover existing or anticipated decommissioning liabilities. Key considerations include:

- i. The current state of the asset and its infrastructure.
- ii. Any prior decommissioning obligations that may not have been met.
- iii. The estimated costs and risks

associated with future decommissioning activities.

Understanding these factors helps both buyers and sellers make informed decisions and assess whether the transaction terms adequately address these liabilities.

**b) Clear Allocation of Responsibilities:** A sale or purchase agreement should explicitly define which party is responsible for decommissioning liabilities:

- i. Historical Liabilities: Typically, the seller retains responsibility for decommissioning obligations incurred up to the point of sale.
- ii. Future Liabilities: The purchaser assumes responsibility for decommissioning activities that arise after the transaction is completed.

These distinctions must be clearly documented in the transaction agreement to prevent disputes and ensure that all liabilities are adequately covered. This clarity is especially important for ensuring compliance with both regulatory and contractual obligations.

<sup>4</sup> Key examples include the United Nations Convention on the Law of the Sea (UNCLOS), which sets out the legal framework for removing offshore structures to prevent marine pollution, and the International Maritime Organization (IMO) Guidelines, which provide best practices for decommissioning offshore installations. Additionally, the London Convention regulates the disposal of decommissioned infrastructure to prevent marine pollution, while the Convention on the Continental Shelf addresses the safe removal of offshore installations from the continental shelf. These international instruments form the foundation for the administration and operation of decommissioning activities, ensuring that they meet established environmental and safety standards.

**c) Financial Security:** To guarantee that decommissioning obligations are met, it is advisable that indigenous companies secure financial instruments such as decommissioning bonds, escrow accounts, or insurance policies. These mechanisms ensure that sufficient funds are available when decommissioning activities are required, providing assurance to regulators and stakeholders.

**d) Regulatory Oversight under the Petroleum Industry Act (PIA):** Section 232(13) of the PIA provides a crucial safeguard for decommissioning compliance. It empowers the regulator to hold previous owners accountable for decommissioning obligations, even after they have divested their interests. Key implications include:

i. If a licensee or lessee transfers

ownership, the successor entity inherits the decommissioning responsibilities associated with the asset.

ii. However, the regulator retains the authority to recall the previous licensee or lessee to fulfill any unmet obligations if necessary.

This provision ensures continuity in regulatory compliance and environmental protection, preventing scenarios where decommissioning liabilities are neglected during or after a transaction. By addressing these aspects comprehensively, indigenous companies can manage decommissioning liabilities effectively, foster smoother transitions in ownership, and safeguard their financial and environmental interests.

## Challenges Faced in Decommissioning and Abandonment in Nigeria

**a) Dearth of Technical Skill and Capacity:** Nigeria faces a significant skills gap in decommissioning and abandonment, with limited local expertise and insufficient exposure to advanced technologies. Operators often rely on international contractors, increasing costs and reducing local capacity development. Regulatory bodies also face challenges in providing effective oversight due to inadequate training and resources. This technical deficiency results in substandard decommissioning practices, environmental degradation, and delays in project execution.

**b) Cost of Decommissioning and Abandonment:**

Decommissioning is capital-intensive, involving dismantling infrastructure, waste management, and environmental remediation. Operators, particularly those in financially constrained situations or with ageing assets, often struggle to allocate sufficient funds for these activities. The absence of readily available financial mechanisms, such as government subsidies or industry-specific funds, exacerbates this issue. For many companies, the high costs deter compliance, leading to prolonged environmental and safety risks.

### **c) Absence of robust post-decommissioning monitoring and evaluation.**

Another significant challenge in well decommissioning is the absence of mechanisms to address post-decommissioning monitoring and evaluation. Currently, the Commission and Authority only require operators to submit an End of Operations Report after completing the decommissioning process. While this report addresses immediate compliance, it fails to account for long-term risks such as escaped gas emissions or groundwater pollution. Without ongoing oversight, poorly sealed wells could leak methane or other harmful substances, posing environmental and safety hazards over time. To address this gap, strengthening post-decommissioning accountability

will protect ecosystems, mitigate risks, and support sustainability goals in the energy sector.

### **d) Lack of Transparency in Decommissioning and Abandonment Compliance**

Transparency remains a significant challenge as operators frequently avoid publishing comprehensive decommissioning compliance reports. This reluctance stems from concerns about exposing operational inefficiencies or potential regulatory violations. The lack of publicly accessible reports undermines accountability, reduces stakeholder engagement, and hinders efforts to improve industry-wide standards. Stronger regulatory enforcement of disclosure requirements is necessary to address this issue.

## **The Role of Decommissioning in Achieving Sustainability**

Decommissioning plays a vital role in ensuring that the oil and gas industry transitions responsibly toward a more sustainable future. While traditionally seen as a regulatory necessity, it also presents a strategic opportunity to align operations with environmental preservation, resource efficiency, and biodiversity goals. Here's how:

**a) Environmental Remediation:** Decommissioning involves restoring sites to their original or near-natural state, ensuring they do not pose environmental risks after operations cease. This includes cleaning up hazardous substances, rehabilitating ecosystems, and protecting water

bodies from contamination. Effective remediation prevents long-term environmental damage and fosters the recovery of ecosystems impacted by industrial activity.

**b) Resource Recovery:** During decommissioning, materials such as steel, concrete, and equipment from facilities can be recovered and recycled. This reduces waste, minimizes environmental impacts associated with new resource extraction, and supports a circular economy. These materials can be repurposed in other industries or construction projects, contributing to cost efficiency and sustainability.



### c) **Biodiversity Enhancement:**

Decommissioning can also contribute to biodiversity by repurposing offshore platforms. For example, decommissioned rigs can be converted into artificial reefs, creating habitats for marine life and boosting aquatic ecosystems. Additionally, some structures may be adapted to serve as bases for renewable energy projects, such as offshore wind farms, further supporting a sustainable energy transition.

One of the most recognized examples of sustainable decommissioning globally is the Gulf of Mexico's "Rigs to Reefs" initiative. Under this program, decommissioned oil rigs are submerged to create artificial reefs, benefiting marine biodiversity and local fisheries. This approach demonstrates how

infrastructure that once supported hydrocarbon extraction can be repurposed to positively impact the environment and local communities.

Nigeria has significant potential to adopt and implement similar sustainable decommissioning practices. The country can leverage its offshore oil and gas infrastructure to:

- Create artificial reefs that enhance marine biodiversity and support local fishing industries.
- Transition decommissioned assets into platforms for renewable energy projects, such as offshore wind farms.

This approach aligns with global sustainability trends and positions Nigeria as a leader in environmentally responsible oil and gas operations.

## **Conclusion**

In conclusion, effective decommissioning and abandonment practices are integral for mitigating enormous liabilities as companies transition to divest assets in the oil & gas sector. Extensive due diligence on the acquisition targets and strategic risk management of liabilities for Indigenous companies will enhance their ability to better navigate the complexities of decommissioning and abandonment, ultimately contributing to the development of a more resilient, sustainable, and resource-responsible energy sector. With comprehensive planning and management of decommissioning and abandonment procedures, both sellers and buyers can realize significant advantages. For

sellers, these plans reduce future liabilities by clearly outlining the scope and cost of decommissioning, which enhances the asset's attractiveness and value. By ensuring compliance with regulatory obligations, sellers can avoid penalties or delays, making the transfer of assets smoother. For buyers, it offers clarity on potential costs and liabilities they may inherit, allowing them to better manage financial risks. Moreover, aligning with international legal frameworks like UNCLOS and IMO guidelines, Nigeria can implement effective decommissioning strategies that incorporate practices such as repurposing decommissioned platforms, recycling materials, and restoring ecosystems.

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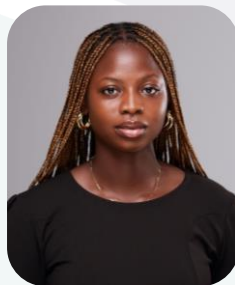
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