

THE IMPACT OF THE AMENDED DEEP OFFSHORE AND INLAND BASIN PRODUCTION SHARING CONTRACTS ACT ON THE ECONOMICS OF OIL PRODUCTION IN NIGERIA

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ABSTRACT

The Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) was amended and signed into law November 4, 2019; which marks the beginning of a new era for Nigeria Production Sharing Contracts (PSC). The framework was designed to offer incentives to investors willing to take highly risky and capital-intensive deep offshore petroleum exploration and exploitation projects, especially during low oil price regimes. The amendment was necessitated following some flaws in the original Act. One major flaw is the need for a revisit to conduct comprehensive review 15 years after granting a lease and when the price of oil is above \$20. This work aim to ascertain how the amended Act have impacted on deep offshore investments in some fields (OMLs 118, 138, 125, and 133) in Niger Delta. The Discounted Cashflow Model (DCF) technique was used to carry out pre and post amendment PSC amendment evaluations, while a Monte Carlo simulation, using Crystal Ball software was used for the Stochastic and Sensitivity Analyses. From this study, it was observed that the amended Act caused a significant contractor NPV devaluation. The Federal Government also incurred losses of up to \$2.32billion from the leases under the original Act. The Amended Act would increase the Government revenue within a 30 USD per barrel oil price threshold and attractive the contractor take after the amendment. It was observed that of all the variables sensitized, oil price has the highest impact on the profitability of investments under this amended PSC Act, followed by production rate.

Keywords: NPV, Contractor take, Government take, discounted cash flow, Production Sharing Contracts (PSC).