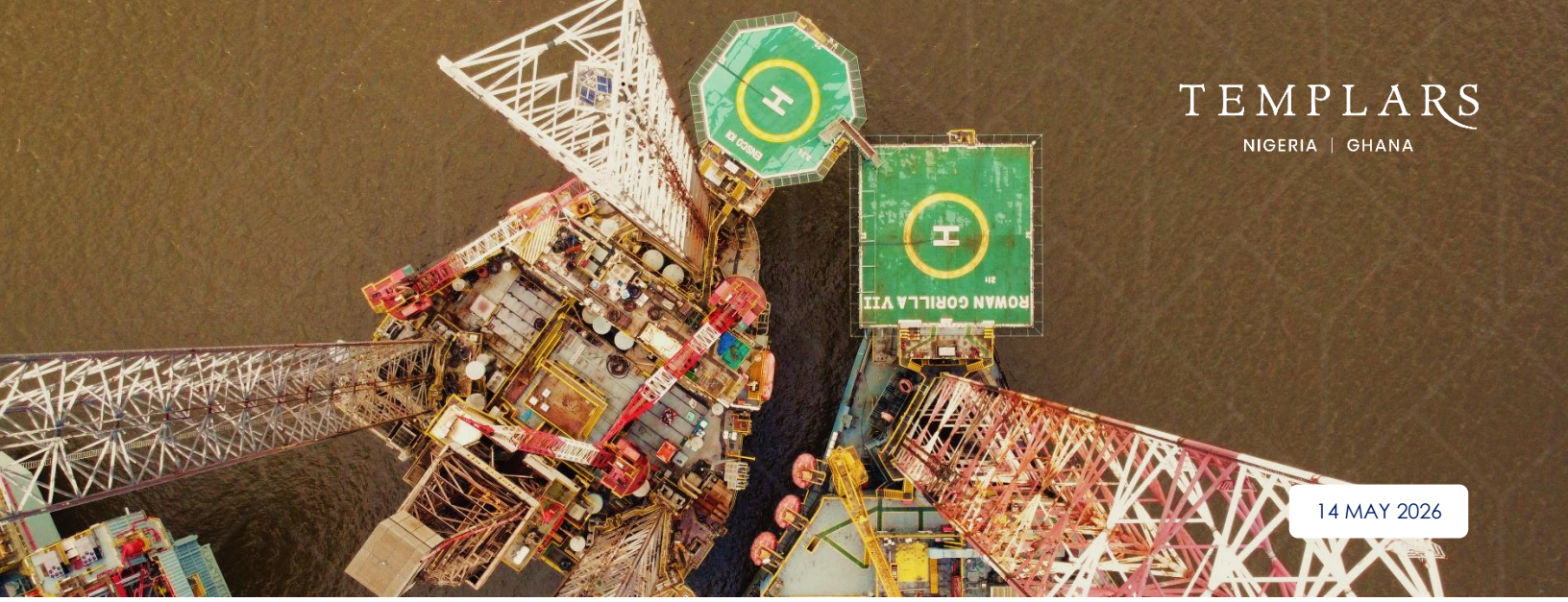

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TEMPLARS ThoughtLab

Nigeria's Upstream Decommissioning & Abandonment Regulations 2026: Key Changes and Commercial Implications

Introduction

Decommissioning and Abandonment is an unavoidable reality of upstream oil and gas operations. Every field has a life cycle, and at the end of that cycle, upstream operators are obligated to safely plug wells, dismantle facilities, and restore the environment; a process that is technically complex, capital intensive, and increasingly subject to regulatory scrutiny.

In Nigeria, the monitoring and enforcement of upstream decommissioning and abandonment obligations have grown considerably based on a combination of the global push toward environmental accountability, and the recent wave of upstream mergers and acquisitions.

The Nigerian Upstream Petroleum Regulatory Commission ("NUPRC") has issued the Nigerian Upstream Decommissioning and Abandonment Regulations 2026 (the "2026 Regulations"), repealing the 2023 regulations and introducing material changes to decommissioning and abandonment obligations, such as the timelines for submitting decommissioning and abandonment plans and changes to the establishment & domiciliation of the decommissioning and abandonment fund.

Below we examine decommissioning and abandonment through a practical lens; highlighting the key changes introduced by the 2023 regulations and implications for upstream operators, financiers and parties engaged in upstream mergers and acquisitions

Overview of the Decommissioning and Abandonment Framework

Upstream decommissioning and abandonment in Nigeria is governed by the Petroleum Industry Act, 2021 ("**PIA**") and the 2026 Regulations issued pursuant to the PIA.

The PIA[1] defines Decommissioning and Abandonment 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 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*".

Decommissioning and abandonment obligations are triggered at the natural end of a field's productive life, whether for economic reasons (such as where the cost of continued operations exceeds the value of recoverable reserves), technical or legal reasons, (including the expiry, surrender, voluntary relinquishment, or revocation of a licence or lease). They may also be triggered by a regulatory directive from the NUPRC, which has the power to direct an operator to commence decommissioning and abandonment at any time, irrespective of the timing proposed in the operator's decommissioning and abandonment plan.[2]

The PIA requires that all decommissioning and abandonment activities must comply with good international petroleum industry practice[3] and guidelines issued by the NUPRC; and in the case of offshore operations, by the standards prescribed by the International Maritime Organisation (IMO) on offshore petroleum installations and structures.[4]

Decommissioning and Abandonment Plan

A critical compliance requirement under the PIA and 2026 Regulations is that every licensee or lessee[5] engaged in upstream operations must maintain an approved decommissioning and abandonment plan ("**D&A Plan**"). The plan serves as the operator's high-level roadmap for how an asset will be decommissioned over its lifecycle and is required to state the amount to be contributed annually to the decommissioning and abandonment fund ("**D&A Fund**")[6].

Under the 2023 regulations, the D&A Plan was required to be submitted within one year of the regulations coming into force.[7] However, the 2026 Regulations align submission with the relevant stage of the asset's development. As such, under the 2026 Regulations[8]:

- holders of a Petroleum Prospecting Licence ("**PPL**") submit their D&A Plan with their application for approval of the Work Programme for the PPL;
- holders of a Petroleum Mining Lease ("**PML**") submit a D&A Plan with their application for approval of a Field Development Plan ("**FDP**"); and
- operators with an existing D&A Plan in an approved FDP are required to submit an updated plan within six months of the commencement of the 2026 Regulations. Therefore, previously approved D&A plans must be updated and submitted on or before 9 September 2026.

Decommissioning and Abandonment Fund

Given the scale of decommissioning costs, and the fact that they arise at the least convenient times, i.e., when production has stopped or is no longer profitable, the PIA requires operators to fund these

[1] Section 318 of the Petroleum Industry Act, 2021.
[2] Section 232 (3) of the PIA, Regulation 16 of the 2026 Regulations. NUPRC may only exercise this power under any of the following circumstances — (a) in compliance with good international petroleum industry practices; (b) where any part or all of the area of a licence or lease has been surrendered; or (c) upon voluntary or mandatory relinquishment of any part or all of the area of the licence or lease.
[3] The PIA defines good international petroleum industry practice as those uses and practices that are, at the time in question, generally accepted in the international petroleum industry as being good, safe, economical, environmentally sound and efficient in petroleum operations and should reflect standards of service and technology that are either state-of-the-art or otherwise appropriate to the operations in question and should be applied using standards in all matters that are no less rigorous than those in use by petroleum companies in global operations.
[4] Section 232(1) of the PIA.
[5] License here refers to petroleum prospecting licence while lease refers to petroleum mining lease.
[6] Regulation 3(6) of the 2026 Regulations.
[7] Regulation 3(1) of the 2023 D&A Regulations.
[8] Regulation 3(5) of the 2026 Regulations.

obligations in advance and ringfence the cost for decommissioning and abandonment progressively during the productive life of the asset, rather than being treated as a future problem.

The rationale is simple: without a dedicated funding mechanism, the burden of decommissioning can fall back on the State if an operator defaults, becomes insolvent, or exits the asset.

Under the PIA[9], the amount to be contributed to the D&A Fund is derived from the approved D&A Plan. It is based on a reasonable estimate of total decommissioning costs, projected on a nominal basis and spread over the expected life of the asset. Contributions are made annually and are subject to periodic review.

One of the more practical improvements introduced by the 2026 Regulations is the clarification of the domiciliation of the D&A Fund. Under the 2023 regulations, the D&A Fund was required to be held with the Central Bank of Nigeria ("**CBN**"), except for international oil companies (IOCs) in joint venture or production sharing contract arrangements with the Nigerian National Petroleum Company Limited ("**NNPCL**") who were permitted to hold not more than 85% of their annual contribution to the fund in a qualifying financial institution offshore.[10]

In practice, this created a significant implementation challenge, as the CBN's statutory mandate does not extend to maintaining accounts for non-State-owned entities. Under section 27(b) and (c) of the CBN Act, the CBN is only authorised to open accounts for, or accept deposits from, Federal, State and Local Governments, as well as funds, institutions and corporations of such Governments, banks and other credit or financial institutions.

The 2026 Regulations resolves this by permitting the Fund to be held with any financial institution in Nigeria or offshore that meet the approved credit ratings.[11] IOCs are required to hold 15% of their annual contributions in a qualifying Nigerian financial institution.

The 2026 Regulations also revise the timelines for establishing the D&A Fund. For new licenses, holders of a PPL and PML are required to establish the Fund within 180 days of approval of the work programme and grant of the lease, respectively[12]. For existing assets without an approved D&A Plan, the operator must first submit a D&A Plan within six months of the commencement of the 2026 Regulations and then establish the Fund within 180 days of plan approval.[13]

Each licence or lease is required to have a dedicated D&A Fund, although operators may apply to consolidate contributions across multiple assets into a single account, subject to the NUPRC approval.[14] The D&A Fund must be structured as an interest-bearing escrow account, with the NUPRC as a party to the escrow agreement, with retained independent rights of access to the D&A Fund in circumstances such as where the operator defaults, is insolvent or bankrupt.[15]

Critically, the D&A Fund is strictly ring-fenced for decommissioning purposes and shall be free from any encumbrances or attachment.[16] Where the D&A Fund proves insufficient to cover actual decommissioning expenditure, the shortfall remains the operator's obligation.[17]

[9] Section 233(5) of the PIA
[10] Regulations 19(4) of the 2023 Regulations.
[11] Pursuant to Regulations 19(4) of the 2026 Regulations, the financial institution in Nigeria must meet the national rating of A+ or its equivalent published by either Standard & Poor 500, Fitch Ratings Inc., Moody's Investors Service Inc., Agusto & Co. or GCR Ratings; or if offshore, the financial institution must meet the minimum credit rating of A+ or its equivalent published by either Standard & Poor 500, Fitch Ratings Inc., or Moody's Investors Service Inc.
[12] Regulations 19(2) of the 2026 Regulations.
[13] Regulations 19(2)(c) of the 2026 Regulations.
[14] Regulations 3(7) of the 2026 Regulations.
[15] Regulations 21(10) of the 2026 Regulations.
[16] Regulations 19(11), 12, 21(1) of the 2026 Regulations.
[17] Regulations 21(5)&(6) of the 2026 Regulations.

Conversely, where a surplus remains following the completion of decommissioning and post-abandonment obligations is treated as income for production sharing or tax purposes, and the net amount after applicable deductions is returned to the operator.[18]

Decommissioning and Abandonment Programme

Unlike the D&A Plan, which serves as a high-level lifecycle framework for the asset, the D&A Programme is an execution-focused document submitted immediately prior to the commencement of actual D&A operations. It sets out, in detail, the facilities or infrastructure to be decommissioned, the proposed methodology, a specific and time-bound schedule for the activities, and the anticipated environmental and social impacts of the exercise[19].

The 2026 Regulations prescribe different timelines depending on the nature and location of the asset. In the case of onshore installations, structures, utilities, plants, or pipelines and onshore oil fields, the application for approval must be submitted to the NUPRC at least 12 months prior to the proposed commencement date.[20] For offshore installations and fields, the application must be made at least 60 months prior to the proposed commencement date[21], reflecting the greater technical, operational, and environmental complexities associated with offshore decommissioning.

The 2026 Regulations further require the NUPRC to determine applications for well abandonment within 60 days of receipt[22], while applications relating to the decommissioning of other installations are to be considered within 12 months[23].

Decommissioning and Abandonment as a Commercial Consideration in Assignments and Financing

Upstream Mergers and Acquisitions

The recent wave of IOC onshore divestments brought decommissioning and abandonment obligations into sharper commercial and regulatory focus. Transactions involving mature assets increasingly require parties to confront not only the value of the producing asset, but also the long-term liabilities attached to it.

In practice, parties to upstream acquisitions devote significant attention to the allocation of decommissioning and abandonment obligations and other regulatory liabilities arising before and after the effective date of transfer. Because decommissioning exposure can materially affect asset value, transaction structures are often designed to allocate part, or all, of the future decommissioning and abandonment burden to the assignee, including liabilities that may have economically accrued during the assignor's period of ownership.

Decommissioning and abandonment has therefore become a major negotiation point in upstream sale and purchase agreements. Parties typically negotiate issues such as:

[18] Regulation 21(4) of the 2026 Regulations.
[19] Section 233(6) of the PIA provides that a D&A Programme must set out: (a) estimate of the cost of the proposed measures, (b) details of measures proposed to be taken in connection with the shutdown of operations and decommissioning and abandonment of disused installations, structures or other assets used in petroleum operations as the case may be; (c) clear descriptions of the methods to be employed to undertake the work programme, which shall be in line with good international petroleum industry practices and environmental development; (d) steps to be taken to ensure maintenance and safeguard, where any installation, structure or pipeline remained disused and in position or are to be partly removed with respect to deep and ultra-deep water environment and where the installation, structure or pipeline is partly removed, the licensee or lessee shall remain liable for any residual liability arising from the installation, structure or pipeline not removed ; and (e) assessment of the environmental and social impact of the decommissioning and abandonment measures. Regulation 5(11) of the D&A Regulations also set out
[20] Regulations 5(11) and (12) of the 2026 Regulations.
[21] Regulation 6 of the 2026 Regulations.
[22] Regulation 7(1) of the 2026 Regulations.
[23] Regulation 11(1) of the 2026 Regulations.

- allocation of historic and future decommissioning and abandonment liabilities;
- indemnities for pre-completion environmental and abandonment obligations;
- treatment and control of existing D&A Funds;
- transitional operational responsibilities; and
- residual liability exposure following completion.

The 2026 Regulations reinforces the above: Regulation 23 provides that where all or part of an interest in a licence or lease is assigned, novated, or otherwise transferred, the proportionate rights and obligations relating to decommissioning and abandonment are deemed to attach to the transferred interest and become obligations of the transferee. In effect, the decommissioning and abandonment obligation follows the asset.

However, the 2026 Regulations do not expressly address whether the transfer of an interest completely extinguishes the assignor's residual liability to the NUPRC for decommissioning and abandonment obligations that accrued prior to the transfer, or whether the assignor can contractually transfer its residual liability. As a result, parties must carefully address in the transaction documents the allocation of pre- and post-transfer decommissioning and abandonment liabilities, the scope of any continuing seller exposure, and the extent to which the transferee assumes responsibility for legacy obligations.

Upstream Financing

From a lender's perspective, decommissioning and abandonment liability is a long-tail contingent obligation, one that may not crystallise for years or decades, but which, when it does, represents a significant and unavoidable cash outflow or risk significant penalties for non-compliance outlined in Regulations 24 of the 2026 Regulations.[24] Alignment with decommissioning and abandonment obligations, and in particular the adequacy and accuracy of the approved D&A Plan and the state of the D&A Fund, therefore becomes an important lender due diligence item.

A significant provision is the restriction on encumbrances over the D&A Fund escrow account.[25] However, lenders have options including through covenants requiring the borrower to maintain adequate D&A Fund contributions in accordance with the approved D&A Plan or through representations and warranties as to the status and adequacy of the D&A Fund.

Conclusion

The 2026 Regulations improve implementation of the Nigeria's D&A framework through targeted revisions to Plan submission timelines, Fund establishment mechanics, and Fund domiciliation which have removed the structural barriers that impended the 2023 Regulations.

What the 2026 Regulations make clear, above all else, is that decommissioning and abandonment sits at the heart of how upstream assets are operated, financed, and transferred and the NUPRC has signalled it intends to actively monitor and enforce the D&A obligations of upstream companies.

If you require any further clarification, do not hesitate to contact us.

[24] Failure to submit a D&A Plan or establish a D&A Fund within the prescribed period attracts an administrative penalty of $500,000 (Five Hundred Thousand Dollars) for each year of non-compliance. Failure to make the required annual contribution to the D&A Fund attracts an administrative penalty equivalent to one year's contribution payable to the Commission, in addition to the outstanding sum due to the D&A Fund for the relevant period, and may also result in the revocation of the licensee's or lessee's interest. Furthermore, the commencement of any D&A or decommissioning programme without the prior approval of the NUPRC attracts an administrative penalty of &1,000,000 (One Million Dollars).
[25] Regulation 19(12) of the 2026 Regulations.