



OIL SUPPLIER CONTRACTS: WHAT YOU SHOULD KNOW

In the run up to oil production, a number of discussions centering on how Ugandans can cash in are going on. One aspect that has been little talked about is how to handle contracts, writes Billy Rwothungeyo

The discussion on contracts is important because business in the oil and gas industry is done through contracts. At the highest echelon of the industry, sovereign states sign contracts with International Oil Companies (IOCs) on production sharing.

The IOCs also sign contracts with contractors to supply exploration and development

projects with goods and services ranging from drilling to insurance services. Then there are contracts between contractors of IOCs and sub-contractors for a range of services and goods.

The national content strategy that government has adopted as the country inches towards development phase of the oil and gas industry presents enormous opportunities for Ugandans. Goods and services ring-fenced for Ugandan enterprises include construction material such as cement, steel and bitumen among others, transportation, security, foods and beverages, catering services, office supplies, fuel supply, clearing and forwarding and waste management services.

If you are interested in supplying any of the above to an IOC or their contractor, either on your own or through joint ventures, you will have to sign contracts. So what are the things you should know about contracts?

Speaking at a recent dialogue on opportunities

in the oil and gas sector, renowned lawyer Kiryowa Kiwanuka, who sits on the board of the Petroleum Authority of Uganda, advised business owners that they must understand the terms of a contract before penning their signature against one.

"You must understand the contract you are signing and the circumstances under which you are operating. Therefore, you need to review your contracts carefully and know exactly what you are getting into," he said.

"A contract is not completed after the signing. A contract is completed at the end, when you close it without any issue arising. You have to understand the scope before getting into a contract."

Kiwanuka also said that one needs to understand particulars of a contract, such as

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OIL AND DEVELOPMENT

How Saudis use oil cash

Modern Saudi Arabia has been built on the back of petroleum – an ancient resource that has been stored for millions of years underneath the kingdom. The Ghawar oilfield is the largest conventional oilfield in the world, and Saudi Arabia has produced more oil over the past 20 years than any other country.

The world is still heavily dependent upon Saudi Arabia's oil, but it has been calculated that all of the world's energy needs could be met with solar panels on just 1.2% of the

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Have Section

Petroleum data is managed by PAU



Andrew Ochan

Objective two of the National Oil and Gas Policy is 'to establish and efficiently manage the country's oil and gas resource potential'. Indeed, it is widely accepted

in the industry that petroleum data, just like the oil and gas reserves held by the country, is a national asset. Thus, petroleum data management is among the key functions of the Petroleum Authority of Uganda and regulator of the oil and gas sector.

The Legal Framework

Management of petroleum data is provided for by the Constitution, the National Oil and Gas Policy 2008, the Petroleum (Exploration, Development and Production) Act 2013, the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013 and the attendant regulations to the Petroleum Acts, as well as the Production Sharing Agreements signed between the licensed oil companies and Government and the Access to Information Act, 2005.

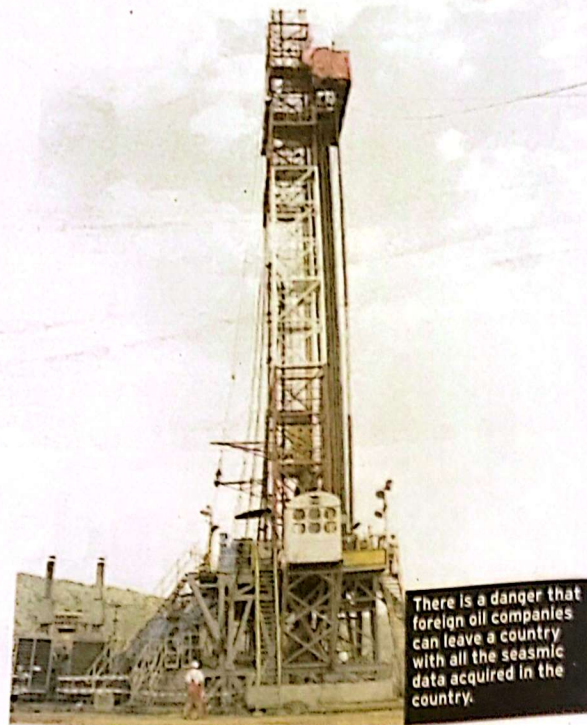
The Petroleum Acts spell out the ownership of petroleum data, responsibilities of various stakeholders, and obligations concerning reporting and submission of data acquired by licensees in the course of petroleum activities and operations to the Government, requirements to disclose information to the public and confidentiality of the data among others. The Regulations detail the reporting requirements for various types of data.

It is important that these areas are clearly spelt out in legislation as ambiguity or gaps in legislation can be costly for the country. For example, many oil producing countries later realise that upon change of ownership, or expiry of the licence, foreign oil companies leave the country with all the data acquired in the country. Where possible, such data has to be traced and repatriated sometimes long after the company has left.

Data Management

Petroleum data refers to all information obtained as a result of petroleum activities and operations carried out under the Petroleum Acts including but not limited to geological data, well data, seismic data, gravity & magnetic data, reservoir data, production data and spatial data as well as interpretative and derivative data such as reports, analyses, interpretations and evaluations prepared in respect of petroleum activities.

The quantity and types of petroleum data held by a country is directly proportional to the exploration history



There is a danger that foreign oil companies can leave a country with all the seismic data acquired in the country.

and phases of petroleum activity. An overview of the data types from the Albertine Graben includes 6,900km of 2-Dimensional seismic and 1,600 km² of 3-Dimensional seismic data from 32 surveys, data from the 121 wells drilled including 1km of cores and several related technical records and reports. The volume of data is still modest, with most of the data having been acquired during the exploration phase of petroleum activity.

The data volume is expected to rapidly increase in the development phase (during the next three years) and the production phase. As a minimum, good data management practices entail having in place competent personnel, the necessary policies, processes, technology and infrastructure to enable data QC, proper storage, and efficient retrieval and dissemination to stakeholders. Data mining and analytic also constitute data management.

As pointed out above, data management is an essential part of petroleum resource management. Specifically, data is fundamental to the Authority in carrying out its resource management roles, including:

- Advising the Minister of Energy and Mineral Development (MEMD) regarding promotion, nomination and awarding of new blocks to petroleum exploration companies,
- Undertaking petroleum resource assessment,
- Monitoring of exploration work programs undertaken by the licensees,
- Evaluation of Field Development Plans,
- Monitoring of production including ensuring optimal levels of recovery,
- Ascertaining cost oil or gas due to licensees,
- Furnish information relevant for taxation and collection of revenues from

petroleum activities.

To emphasise the above, adequate promotion of petroleum potential in a frontier basin is only possible when there is basic data available.

Reuben Kashambuzi points out in his book, *The Story of Petroleum Exploration in Uganda: 1984 - 2008 - A Matter of Faith*, the difficulty of promoting Uganda's petroleum potential in the early days using scanty data, and that the lack of essential data like seismic data could have led to a delay in attracting international oil companies.

In addition, without good quality data, it would not be possible to make the oil or gas discoveries or estimate and define the resources in the 21 discoveries made to date in the Albertine Graben. These resources are estimated at 6.5 billion barrels in place resources with 1.4 billion barrels as recoverable and over 500 billion cubic feet (BCF) of non-associated and associated gas.

Management of petroleum data by the Petroleum Authority of Uganda

Following the commercial discovery of oil in 2006, the oil and gas sector experienced a number of changes some of which include:

- Increase in data volumes acquired by international oil companies and MEMD, especially during the appraisal of the discoveries.
- Some of the old data had to be digitalised and transcribed to new media/reformatted especially seismic data.
- Formulation of the National Oil and Gas Policy for Uganda in 2008; and enactment of the Petroleum (EDP) Act, 2013 and the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013; together with attendant Regulations;
- Separation of functions and roles by the different institutions required to govern the petroleum sector in

Prior to the coming in place of PAU in 2015, the role of managing petroleum data was being undertaken by MEMD through the Directorate of Petroleum

accordance with Industry best practices like the Directorate of Petroleum Data Licensing, Petroleum Authority of Uganda (PAU) to regulate the sector, and the Uganda National Oil Company (UNOC) to handle commercial aspects.

Prior to the coming in place of PAU in 2015, the role of managing petroleum data was previously being undertaken by MEMD through the Directorate of Petroleum.

The law empowers the Minister to establish a National Oil and Gas Resource Data Bank, a repository of petroleum data, and mandates PAU to manage petroleum data. PAU therefore took over the management of data from DOP, in line with the provisions of the law.

While PAU has inherited the existing data management system at the DOP, PAU is in the process of recruiting relevant staff and developing relevant policies and procedures to enable efficient management petroleum data in accordance with its strategic plan. Commencing in the Financial Year 2018/19, PAU has planned to procure and equip the National Petroleum Resource Data bank with data management systems and support infrastructure.

A key initiative in data management the development of the "Crane" reference database, which is a centralised database for petroleum data. The database has been developed using in-house skills with support from Norwegian Petroleum Directorate (NPD). Although the database is still being populated owing to a huge backlog of data, parts of it is accessible to stakeholders via the PAU website.

A complete version of the Crane Database will be available as part of the National Oil and Gas Resources Data bank.

Conclusion

The legal and institutional framework for the oil and gas sector provides adequate safeguards to ensure proper management of petroleum data, including data submission and reporting requirements by the licensees.

The PAU is well positioned to play its data management function and realize its commitment to working with all institutions of Government in fulfilling its purpose of contributing to Uganda's socio-economic transformation through efficient and sustainable petroleum resource management.

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