

No. O-19025/10/2005-ONG-D.V
Government of India
Ministry of Petroleum & Natural Gas

April 18, 2006
Shastri Bhawan, New Delhi

DG, DGH
New Delhi

**Sub: Policy for extension in exploration phases in NELP and pre-NELP PSCs
and extension there under in respect of 23 proposals forwarded by DGH to
the Government**

Sir,

I am directed to refer the 23 extension proposals (8 of ONGC and 15 of RIL as operators forwarded to the Government. The Government has now formulated a policy for considering extension proposals under NELP and pre-NELP PSCs. A copy of the policy is enclosed for ready reference. This policy may be circulated and given wide publicity amongst the companies and they may be informed that this should be kept in view while seeking extension. Any proposal for extension forwarded to the Government for consideration and approval should be in accordance with the policy with explicit consent of the operator to the terms and conditions, as may be applicable for the respective category of extension.

2. The approval of the Government is also conveyed in respect of 23 extension proposals and the same are enclosed at Annex-II. It has also been decided that any exploration well under and drilling at present may be allowed to be completed in terms of the provisions of the PSCs.

3. DGH is requested to expeditiously work out amount of money to be paid by the contractors for the unfinished Minimum Work Programme against the blocks indicated in Annex-II. DGH is also requested to calculate the amount of mutually agreed pre-estimate liquidated damages in respect of the blocks mentioned in Annex-II as any extension in such blocks are subject to the contractors agreeing to the terms and conditions mentioned therein. In case any of the contractors do not agree to any of the terms and conditions of the extension or fail to reply within a period of 15 days, DGH should immediately take action to recover the money due from the contractors for such blocks.

4. DGH is requested to acknowledge receipt of this letter.

Yours faithfully,

(S.C. Das)
Under Secretary to the Govt. of India

Encl.: Extension Policy (Annex-I) & decision of the Government on 23 extension cases (Annex-II)

POLICY FOR EXTENSION OF EXPLORATION PHASES UNDER NELP AND PRE-NELP PRODUCTION SHARING CONTRACTS

The Government of India has signed over 100 Productions Sharing Contracts (PSCs), which are currently valid and are at various stages of exploration. These have been signed within the framework of New Exploration Licensing Policy (NELP) and Exploration Policy adopted prior to NELP. These contracts generally provided extension in exploration phases for a period of 6 months to complete the unfinished Minimum Work Programme and also provided 6 months extension to complete a well under drilling. The objective of the exploration policies have been to stimulate exploration of oil and gas in the country. In the last few years, it was observed that a number of proposals seeking extension in exploration phases were received by the Government citing numerous reasons. The Government have been considering the cases on merit of individual proposals.

The non-completion of committed work programme within the scheduled time as specified in the respective Production Sharing Contracts has several tangible and intangible effects on the entire process of exploration endeavors. Some of the major implications are:

- (i) The very purpose of accelerating and increasing the efficiency in exploration will be defeated and it may trigger complacency.
- (ii) The blocks are awarded on the basis of Phase wise committed work programme along with timeframe. Extensions vitiate the integrity of the bidding process and spirit of contracts.
- (iii) The principal aim of equal opportunity, fair chances to all, transparency of the system is affected by frequent extensions.

In order to adopt a transparent and consistent framework for granting extension in exploration phases, the Government has framed an extension policy for considering proposals, which are either pending with the Government or may be received in future. The broad objective of the extension policy are as under:

- (i) To have a transparent and consistent set of criteria to take decisions on extension proposals of the contractors.
- (ii) To act as deterrent for those operators seeking unnecessary extensions or holding on the acreages without doing any exploration activities or activity at slow pace.
- (iii) The policy envisages a system of progressive penalty by way of increasing bank guarantee amount and / or cash payment as agreed pre-estimated liquidated damages (mutually agreed pre-estimated amount of liquidated damages) vis-à-vis duration of extension sought and giving due recognition to the companies who have made discoveries and have understood the geology of the block apart from encouragement to additional exploration programme.
- (iv) Upto 6 months extension may be given by the Management Committee or the Government on merit in terms of the provisions of the respective PSCs.
- (v) Demonstrable delays on account of getting the Government approvals/ permits/ clearances will be counted as excusable delays.
- (vi) In case, the contractor does not fulfill the work programme within the stipulated period or extended period, as may be the case, shall be required to pay money for the unfinished work programme, if any, to the Government in terms of the respective provisions of the PSC.

With the broad objectives in view, the Government has decided to put in place the following policy for grant of extensions. The proposals falling in various categories enumerated below in the table will be considered by the Government as per the respective terms and conditions stipulated against each such category.

A. Extension within the overall exploration period of 7 years or 8 years in phase I & II (but excluding any proposed excusable delays on account of the Government approvals / permits / clearance etc.)

Sl. No.	Type of proposal (applicable for extension in phase I & II)	Suggestion along with proposed conditions
1.	Where Minimum Work Programme (MWP) of the relevant phase has not been completed within the stipulated period of that phase and no hydrocarbon discovery (as defined in the PSC) made	Where MWP has not been completed and no hydrocarbon discovery have been made by the contractor, the following procedure shall apply: (a) First 6 months extension may be granted by MC or the Government in terms of the provisions of respective PSCs maintaining the same terms and conditions of the PSCs. (b) An additional upto 6 months extension (that is between 6 – upto 12 months) may be granted on the following terms and conditions: • The contractor will provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages for the unfinished minimum work programme as reasonably determined by DGH, keeping in view the relevant factors in computing cost of such unfinished minimum work programme. • The contractor would be required to relinquish the area in terms of the provisions of the PSC at the beginning of this extension period. • This period of extension will be set off from the next exploration phase. (c) Any extension beyond 12 months and upto 18 months may be considered subject to the following: • The contractor would be required to relinquish the area as applicable at the end of relevant phase. • The contractor would be required to give 100% bank guarantee for unfinished minimum work programme and deposit a cash payment as agreed pre-estimated liquidated

		damages of 30% of the unfinished minimum work programme as reasonably determined by DGH, keeping in view the relevant factors in computing cost of such unfinished minimum work programme. • This period of extension will be set off from the next exploration phase.
2.	Where MWP has not been completed within the stipulated period of an exploration phase and the operator feels that the prospectively is too poor to undertake further exploration / drilling.	In case the contractor and DGH, based on available information at that time, come to a conclusion that the prospectivity of the block / area is poor and does not warrant completion of MWP (say drilling of exploration wells due to lack of techno-commercial viable prospects), DGH will reasonably decide based on the available information whether the prospectivity of the block is indeed poor and also determine an alternative work programme in consultation with the contractor, which will be atleast equal in terms of investment and effort (in physical terms) the unfinished minimum work programme. Such substitution of work programme would require the Government's approval. In this scenario with a substitute work programme, extension may be granted as under: (a) For the first 6 months by the Management Committee or the Government in terms of the provisions of respective PSCs maintaining same terms and conditions of the PSCs (except for unfinished substituted work programme to be approved by the Government). (b) Next 6 months extension (i.e. 6-up to 12 months may be granted on the following terms and conditions: • The contractor will provide a 100% bank guarantee of the unfinished minimum work programme (equivalent unfinished substituted work programme to be approved by the Government). • The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery or

		any drilling under implementation during this period, the contractor will have the right to retain such areas as reasonably determined by DGH. In case the contractor as a result of exploration during this extended period desires to go to the next phase of exploration, the contractor would be allowed to proceed to the next phase for only such areas for which no licenses / leases have been issued or which has not been placed under a bidding process by such time. No further extension will be given beyond 12 months and the contractor shall be required to relinquish the entire area along with payment, if any, equivalent to the unfinished minimum work programme, to the Government in terms of the provisions of the PSCs.
3.	Where MWP has not been completed but a hydrocarbon discovery is made within the exploration phase and does not want to relinquish the area at the end of phase:	In this scenario, DGH will reasonably decide the work programme, in addition to the unfinished minimum work programme, required to be carried out in the area which is not proposed for relinquishment by the contractor. The following extension may be granted: - First 6 months extension may be given in terms of the provisions of the respective PSCs. - Another extension of upto 12 months (i.e. 6-upto 18 months) may be given subject to the contractor providing 50% bank guarantee of the unfinished minimum work programme and the additional work programme (for retaining additional area) reasonably decided by DGH. - The contractor would undertake to appraise, decide on commerciality and development of the discovery within the time frame provided in the PSCs for these activities.
4.	Where MWP has been completed with no hydrocarbon discovery and additional work programme	In this scenario, the contractor may be given extension as under: (a) 6 months extension may be given in terms of the provisions of the PSC.

	is proposed:	(b) Additional upto 6 months (6-upto 12 months extension may be given subject to the following: • The contractor will provide bank guarantee of 35% amount of the unfinished additional work programme. • Will not be able to set off this work programme from subsequent phase (s). • DGH will reasonably determine the expected time required for completing additional work programme. (c) Another upto 6 months (12-upto 18 months) extension may be granted subject to the following: • The contractor will provide bank guarantee of 100% amount of the unfinished additional work programme. • Would be required to relinquish the area as applicable for relevant phase. • Will not be able to set off this work programme from subsequent phase. • DGH will reasonably determine the expected time required for completing additional work programme. • In case of being unable to complete the additional work programme within the period, the contractor will pay for 50% of the unfinished additional work programme
5.	Where MWP has been completed and hydrocarbon discovery has been made and the contractor wants to retain the area for additional exploration:	In this scenario, the extension may be granted in the following manner: (a) 6 months extension may be given in terms of the provisions of the PSCs. (b) Additional extension of upto 12 months (6-upto 18 months) may be given subject to the following: • DGH will reasonably determine the estimated time required for completing additional exploration work programme. • The contractor would be required to give a bank guarantee of 35% amount of the unfinished additional work programme.

		• Will not be able to set off this work programme from subsequent phase. • In case the contractor is unable to complete the additional work programme within this period, the contractor will pay for 50% of the unfinished additional work programme.
6.	Where MWP has been completed and hydrocarbon discovery has been made and the contractor is willing to relinquish the area as per the PSC, however, wants extension to carry out additional exploration.	In this scenario, the extension may be granted in the following manner: (a) 6 months extension may be given in terms of the provisions of the PSCs. (b) Additional 6 months (6 – upto 12 months) extension may be given on the following conditions: • DGH will reasonably determine the estimated time required for completing additional exploration work programme. • Will not be able to set off this work programme from subsequent phase. • The contractor would be required to give a bank guarantee of 35% amount of the unfinished additional work programme. • In case unable to complete the additional work programme within this period, will pay for 35% of the unfinished additional work programme. (c) Another 6 months (12 - upto 18 months) extension (beyond 12 months) may be granted subject to the following: • DGH will reasonably determine the estimated time required for completing additional work programme. • The contractor would be required to give a bank guarantee of 50% of the unfinished additional work programme. • Will not be able to set off this work programme from subsequent phase.

		In case unable to complete the additional work programme within this period, will pay for 50% of the unfinished additional work programme.
7.	Blocks falling in unprospective area, MWP has not been completed (these may be blocks, which were awarded on a single bid basis)	In this scenario, the extension may be granted in the following manner: (a) 6 months extension may be given in terms of the provisions of the PSCs. (b) Another upto 12 months (6 – upto 18 months) extension may be given subject to the following: - DGH to determine the block falls in unprospective area along with the supporting documents/ data. - DGH to reasonably determine the time for completing the unfinished minimum work programme. - The contractor will provide bank guarantee of 50% amount of the unfinished minimum work programme. - The contractor will relinquish the area in terms of the provisions of the PSC at the beginning of this extension period. - The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery as a result of work programme under implementation during this period, the contractor will have the right to retain the relevant discovery areas as reasonably determined by DGH / MC. In case, the contractor as a result of exploration during this extended period desires to go to the next phase of exploration, the contractor would be allowed to proceed to the next phase provided no licenses / lease have been issued or the area has not been offered under bidding process at the time. - Will be required to pay equivalent amount of the unfinished minimum work programme, if MWP is not completed in the extended period.

8.	Block falling in unprospective area and MWP have been completed but the contractor wants to retain the area to carry out additional work (these may be blocks, which were awarded on a single bid basis).	In this scenario, extension may be given in the following manner: (a) 6 months extension may be given in terms of the provisions of the PSCs. (b) Another 12 months (6 – upto 18 months) extension may be given subject to the following: • DGH to determine the block falls in unprospective area along with the supporting documents/ data. • DGH to reasonably determine the time for completing the unfinished minimum work programme. • The contractor to provide bank guarantee of 35% amount of the unfinished minimum work programme. • The contractor to relinquish any area in terms of the provisions of the PSC at the beginning of this extension period. • The contractor will not be able to set off the additional work programme from the next phase. • The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery as a result of work programme under implementation during this period, the contractor will have the right to retain the relevant discovery areas as reasonably determined by DGH / MC. In case, the contractor as a result of exploration during this extended period desires to go to the next phase of exploration, the contractor would be allowed to proceed to the next phase provided no licenses / lease have been issued or the area has not been offered under bidding process at the time. • Will be required to pay equivalent amount of the unfinished minimum work programme, if MWP is not completed in the extended period.
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B. Extension beyond exploration period i.e. after exploration phase – III (but excluding any demonstrable condonable delays on account of getting the Government approvals / clearances / permits etc.)

Sl. No.	Type of proposal	Suggestion along with proposed conditons
1.	Extension sought to complete MWP of phase III and no discovery made:	As the contractor has not been able to make any discovery even in 7 or 8 years and has also not been able to complete the MWP of phase-III, no extension shall be given and contractors shall be required to pay the money to the Government in terms of the provisions of the PSCs.
2.	Where MWP have been completed, no hydrocarbon discovery made and contractor wants to carry out additional work programme and retain the area:	Upto 12 months of extension may be given on the following terms and conditions: • The contractor will provide 100% bank guarantee and 30% cash payment as agreed pre-estimated liquidated damages for the additional work programme. • The contractor would be required to retain only minimum area along with justification and reasonability of the work programme along with proposed extension period. This is to be decided by the Government in consultation with DGH. • No assignment of participating interest (PI) shall be permitted during the extended period.

		• The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery as a result of work programme under implementation during this extended period, the contractor will have the right to retain the relevant areas as reasonably determined by the Government in consultation with DGH. • In case of pre-NELP PSCs, the contractor (in case of NOCs) will be the licensee / lessee after expiry of exploration period and will be liable for all statutory levies and other obligations under the PSCs / laws. Other terms and conditions of the PSCs shall remain unchanged.
3.	Extension sought to complete MWP of phase III but hydrocarbon discovery made:	In this scenario, extension may be given on the following conditions: • The contractor will provide 100% bank guarantee and 30% cash payment as agreed pre-estimated liquidated damages for the unfinished minimum work programme. • The contractor would be required to retain only minimum area along with justification and reasonability of the work programme along with

		proposed extension period. This is to be decided by the Government in consultation with DGH. • No assignment of participating interest (PI) shall be permitted during the extended period. • The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery as a result of work programme under implementation during this extended period, the contractor will have the right to retain the relevant areas as reasonably determined by the Government in consultation with DGH. • In case of pre-NELP PSCs, the contractor (in place of NOCs) will be the licensee / lessee after expiry of exploration period and it will be liable for all statutory levies and other obligations under the PSCs / laws and other terms and conditions of the PSCs shall remain unchanged. • The contractor would be required to enter into separate ring fenced PSCs for exploration areas w.e.f. the date of extension.
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4.	Where MWP have been completed, discoveries / commercial discoveries have been made and contractor wants to carry out additional exploration work programme and retain the area :	In this scenario, extension may be given on the following conditions: • The contractor will provide 35% bank guarantee and 30% cash payment as agreed pre-estimated liquidated damages for the additional work programme. • The Contractor would be required to retain only minimum area along with justification and reasonability of the work programme along with proposed extension period. This is to be decided by the Government in consultation with DGH. • No assignment of participating interest (PI) shall be permitted during the extended period. • The block will come in the domain of open acreage and may be offered in a bidding round or under open acreage system (as and when it comes in force). However, in case of any discovery as a result of work programme under implementation during this extended period, the contractor will have the right to retain the relevant areas as reasonably determined by the Government in consultation with DGH. • In case of pre-NELP PSCs, the contractor (in place of NOCs)
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		will be the licensee / lessee after expiry of exploration period and it will be liable for all statutory levies and other obligations under the PSCs / laws and other terms and conditions of the PSCs shall remain unchanged. • The contractor would be required to sign separate ring fenced PSCs for exploration areas w.e.f. the extension date.
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Sl. No.	Name of Block (Name of operator)	Scenario applicable	Action proposed as per the policy
1.	MB-OSN-2000/1 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for additional six months i.e. beyond 12 months already granted on the following terms and conditions: (i) to provide 100% bank guarantee and 30% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original area (iii) extension of 18 months to be set off from phase-II
2.	MB-DWN-2000/1 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for 12 months subject to the following terms and conditions: (i) to provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original area (iii) extension of 12 months to be set off from phase-II
3.	MB-DWN-2000/2 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for 12 months subject to the following terms and conditions: (i) to provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP.

			(ii) relinquish 25% of the original area (iii) extension of 12 months to be set off from phase-II
4.	GS-DWN-2000/1 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for 12 months subject to the following terms and conditions: (i) to provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original area (iii) extension of 12 months to be set off from phase-II
5.	GS-DWN-2000/2 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for 12 months subject to the following terms and conditions: (i) to provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original area (iii) extension of 12 months to be set off from phase-II
6.	KK-DWN-2000/4 (ONGC)	MWP not completed and no hydrocarbon discovery till date	Extension is granted for 12 months subject to the following terms and conditions: (i) to provide 100% bank guarantee and 10% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original

			area (iii) extension of 12 months to be set off from phase-II
7.	CY-DWN-2000/2 (ONGC)	Delays in getting environment clearance	* (see the note below)
8.	KG-OSN-97/1 (ONGC)	No hydrocarbon discovery, MWP completed, wants to do additional study	Additional 6 months extension is granted to complete studies subject to the following terms and conditions: (i) to provide 100% bank guarantee and 30% cash payment as agreed pre-estimated liquidated damages equivalent to the remaining MWP. (ii) relinquish 25% of the original area (iii) extension of 12 months (6 months granted earlier and 6 months now granted) to be set off from phase-II
9.	GK-OS/5 (RIL)	Delays in getting CRZ clearance (still awaited)	* (see the note below)
10.	GK-OSJ/3 (RIL)	Delays in getting environment clearance	* (see the note below)
11.	GK-OSN-97/1 (RIL)	Extension beyond 18 months. No scenario applicable	The extension sought is beyond 18 months and does not fall within the purview of extension policy. The contractor should be asked to relinquish the area and deposit the money for unfulfilled work programme in terms of the PSC.

12.	KG-DWN-98/1 (RIL)	Extension beyond 18 months. No scenario applicable	The extension sought is beyond 18 months and does not fall within the purview of extension policy. The contractor should be asked to relinquish the area and deposit the money for unfulfilled work programme in terms of the PSC.
13.	KG-OSN-97/2 (RIL)	Extension beyond 18 months. No scenario applicable	The contractor has spudded a well on 28-11-2005. Extension of 3 months is granted to complete the well under drilling. For balance work programme, money should be recovered from the contractor and they should be asked to relinquish the area (except for any discovery area)
14.	KG-OSN-97/3 (RIL)	Extension beyond 18 months. No scenario applicable	The extension sought is beyond 18 months and does not fall within the purview of extension policy. The contractor should be asked to relinquish the area and deposit the money for unfulfilled work programme in terms of the PSC.
15.	KG-OSN-97/4 (RIL)	Extension beyond 18 months. No scenario applicable	The extension sought is beyond 18 months and does not fall within the purview of extension policy. The contractor should be asked to relinquish the area and deposit the money for unfulfilled work programme in terms of the PSC.
16.	MN-DWN-98/2 (RIL)	Extension sought on account of delay in getting environment clearance	* (see the note below)

17.	NEC-OSN-97/2 (RIL)	MWP completed. Hydrocarbon discoveries made. Contractor wants to retain area for exploration with additional work programme	18 months extension in phase-II is granted on the following terms and conditions: (i) to provide 35 % bank guarantee of the remaining additional work programme. (ii) relinquishment of 25% area (iii) the additional work programme will not be set off from phase-III (iv) in case contractor fails to complete the additional work programme, will be required to pay to the Government money equivalent to 50% of the unfinished additional work programme.
18.	SR-OSN-97/1 (RIL)	Delays in getting environment clearance	* (see the note below)
19.	KK-OSN-97/2 (RIL)	Extension beyond 18 months. No scenario applicable	DGH will be asked to frame a proposal, in case contractor is interested seeking extension in phase-II, else, the contractor should be asked to relinquish the area and pay the amount equivalent to unfinished work programme as per the PSC.
20.	KK-DWN-2000/1 (RIL)	MWP completed. No hydrocarbon discoveries made. Contractor wants to retain area for exploration with additional work programme	12 months extension is granted in phase- I subject to the following terms and conditions: (i) Contractor to provide bank guarantee of 35% of the additional work programme. (ii) the additional work programme will not be set off from the subsequent phase

21.	KK-DWN-2000/3 (RIL)	MWP completed. No hydrocarbon discoveries made. Contractor wants to retain area for exploration with additional work programme	12 months extension is granted in phase- I subject to the following terms and conditions: (i) Contractor to provide bank guarantee of 35% of the additional work programme. (ii) the additional work programme will not be set off from the subsequent phase
22.	MB-OSN-97/3 (RIL)	Extension beyond 18 months. No scenario applicable	The operator has already relinquished the block on 4-08-05. The contractor should be asked to pay the Government money equivalent to the remaining work programme.
23.	SR-OSN-94/1 (RIL)	Delays in getting environment clearance	* (see the note below)

* - the decision on extension period in these cases, where reasons cited for seeking extension on ground of non-receipt / delay in getting environment clearance will be examined after :

- (i) This Ministry will request MOEF to expedite clearance
- (ii) MOEF will also be requested to comment whether contractor has taken all due care and made efforts to ensure that all required actions as well as information needed by MOEF has been supplied in time. This is needed to ensure that the delays are not due to inaction by the contractor.
- (iii) DGH to verify that the MWP is such that it can only be done in that particular area of the block (and nowhere else) which has come under these environmental restrictions.