

File No. O-19025/10/2005 (Pt)
Government of India
Ministry of Petroleum & Natural Gas

27th June, 2007
Shastri Bhawan, New Delhi

To

DG

DGH

New Delhi,

- Subject:(1) Policy for merger of Exploration/Phases under NELP-III & NELP-IV (Shallow and Deepwater Blocks) Production Sharing Contracts.**
- (2) Policy for Substitution of additional metreage drilled in Deeper wells against total metreage commitment as part of Minimum Work Programme (MWP) in the Production Sharing Contracts.**

Sir,

I am directed to refer to two proposals received from DGH regarding substitution of additional metreage drilled to Deeper Wells against total metreage commitment in wells comprising part of Minimum Work Programme (MWP) for RJ-ON/6 & KG-OSN-2001/3 Blocks. Also refer to the proposal submitted by DGH for grant of Exploration holiday to Contractors operating the offshore Blocks under NELP-III & NELP-IV on account of non-availability of the offshore rigs due to tight market conditions.

With a view to consider such proposals on uniform & transparent criteria, the Government has formulated the following policy guidelines.

- (1) Policy for merger of Exploration Phases under NELP-III & NELP-IV (Shallow and Deepwater Blocks) Production Sharing Contracts-~~Policy I/Merger/2007.~~**

- (2) Policy for Substitution of additional metreage drilled in Deeper Wells against total metreage commitment as part of Minimum Work Programme (MWP) in the Production Sharing Contracts-**Policy II/Subsitution/2007**.

Copies of these two Policies are enclosed for ready reference.

These Policies may be circulated amongst the various Companies operating under Production Sharing Contracts in India and they may be informed that this should be kept in mind while seeking substitution of work programme and/or seeking extension of time of Exploration phase due to non-availability of offshore rigs, as provided in the respective policies.

DGH is also authorized to decide and grant approval to proposals, presently pending or to be received from Contractor parties, strictly as per the terms and conditions stated under the extant policies. Further, DGH may submit a monthly report to the Ministry regarding the number of Applications received, cases decided/approved as per the respective policy, cases pending and Applications not approved by DGH with specific reasons for the same. Any proposal involving exception / deviation to the policy guidelines shall be submitted to the Government for a decision. It is further clarified that the Government shall have the overriding right to amend or approve any proposal received against decision of DGH from an aggrieved Contractor on substitution of Work Programme or extension of time of exploration phase due to non-availability of the offshore rigs.

The receipt of this letter may kindly be acknowledged.

Yours faithfully,

(P.G. George)

Under Secretary to the Govt. of India

Policy I / Merger / 2007

POLICY FOR MERGER OF EXPLORATION / PHASES UNDER NELP-III & NELP-IV (SHALLOW AND DEEPWATER BLOCKS) PRODUCTION SHARING CONTRACTS

The Government of India has signed 23 Production Sharing Contracts (PSCs) under NELP-III and 20 PSCs under NELP-IV respectively, which are currently valid and are mostly in phase-I of exploration. Out of these, 15 & 10 PSCs respectively are in offshore areas. These contracts generally provide for 3 exploration phases with phase-I, II & III comprising of 7 years (3+2+2) for shallow water blocks & 8 years (4+2+2) for deep water blocks. The PSCs also provide for a walk out option at the end of every phase, with the provision to relinquish 25% of the Contract area at the end of the each phases-I & II.

2 There is a worldwide supply and availability crunch for offshore rigs. It has been examined that the tight rig position is, particularly, impacting drilling activities in case of NELP-III & IV blocks, as their exploration phase-I is either over (generally in April 2006 for shallow water blocks and April 2007 for deep water blocks in NELP-III) or would be expiring within the next 10-12 months for NELP-IV. In case of NELP-III offshore blocks, even extension periods granted under the extension policy are coming to an end shortly.

3 The PSCs provide for minimum work commitments to be carried out by contractors in each phase of exploration. The non-completion of the committed work programme within the scheduled time as specified in PSCs has several financial implications for the Contractors by way of payment of liquidated damages for the unfinished work programme, to the Government. Further, the extension policy also stipulates the cash payment of 10%-30% and bank guarantees from 50%-100% for unfinished work programme is to be paid to the Government for granting extensions of various periods upto 18 months, beyond the time specified in the PSCs.

4 DGH has recommended the following proposal to the Government to address the unforeseen situation of non-availability of offshore rigs in the international market:

- (i) To merge the duration of exploration Phase-I and Phase-II of NELP-III & IV offshore Blocks into a new phase to be called as phase-I and to merge the MWP of Phase-II and Phase-III to be called Phase-II.
- (ii) The total exploration period will remain seven years for shallow water and eight years for deepwater.

5 DGH has primarily recommended the merger of phases due to non-availability of offshore rigs on the analogy of relief given by MMS, USA in case of areas (leases) operated by companies in Gulf of Mexico. The MMS order provides the following conditions:

“Suspensions of Operations (SOO) will be considered to allow time for the first available rig to commence operations, provided a drilling contract has been executed prior to lease expiration. The SOO request must include:

- (a) Full details, with supporting documentation, demonstrating that a timely rig search was performed,
- (b) Verification that a rig contract has been executed prior to lease expiration, and
- (c) The anticipated date for the rig to arrive on location and commence operations.”

6 Accordingly, Government has now decided to adopt the following transparent policy with regard to merger of exploration phases for NELP-III & IV blocks:

- (i) To merge the period of existing phase-I & II to be named as the **New Phase-I** and merge the Minimum Work Programme (MWP) of existing phase-II & III into a **New Phase-II** to be completed in the period provided for the existing phase-III. This will be applicable in case of offshore blocks of NELP-III & IV. However, before the merged period of the erstwhile phase-II commences, the contractor has to avail 18 months extension in terms of extant extension policy.
- (ii) The contractors who have already entered into exploration phase-II or who have only seismic work programme and no drilling commitments in phase-I will not be covered under this dispensation.
- (iii) The contractors who avail of this dispensation would be required to relinquish 50% of the area at the end of new exploration phase-I.

- (iv) This new scheme will be optional and available to those contractors who are presently in the phase-I or have not relinquished their blocks after completion of phase-I. Contractors will be given 60 days time from the date of announcement of this dispensation to exercise the option. They would also be required to give consent to all the provisions of the new dispensation.
- (v) The conditions stipulated by MMS, USA, as enumerated in para 5 will be made applicable and its compliance should be ensured / verified by DGH.
- (vi) Other PSCs of different bidding rounds including pre-NELP PSCs, contracted prior to NELP-III which are presently in Exploration Phase-I and facing similar problems of shortage of offshore rigs are also approved for this dispensation.
- (vii) In case the contractors complete MWP of phase-I earlier than the new phase-I period, they shall be allowed to either enter into the next new phase-II and remaining period may be added to new phase-II, or undertake additional work programme in the remaining period of the new phase-I, to be set off from the new phase-II in accordance with PSC provisions.
- (viii) The contractors once elect the option under this dispensation, then subject to the compliance of terms and conditions of the Extension Policy and compliance of terms and conditions for merger of exploration phases in the new Exploration Phase-I & II, will be governed by this dispensation. DGH shall ensure timely compliance of the terms and conditions by the contractors.
- (ix) Other terms and conditions of PSCs shall remain unchanged.
- (x) DGH shall monitor the progress of the work programme, once contractors elect to opt for this new dispensation. Each month, DG, DGH will send a monthly statement on the latest status of these blocks, under the new dispensation.
- (xi) Any other consequential issue, which may arise during the implementation of this dispensation shall be decided by the Government.

Policy II/Subsitution/2007

POLICY FOR SUBSTITUTION OF ADDITIONAL METREAGE DRILLED IN DEEPER WELLS AGAINST TOTAL METREAGE COMMITMENT AS PART OF MINIMUM WORK PROGRAMME (MWP) IN THE PRODUCTION SHARING CONTRACTS (PSCs)

The Government of India has signed 190 Production Sharing Contracts (PSCs) under pre-NELP and NELP rounds. A few of the exploration blocks under these PSCs have been relinquished while the remaining are currently valid and are at various stages of exploration. The PSCs provide a Minimum Work Programme (MWP) for each exploration phase. These MWPs include seismic surveys and exploratory wells.

2 The PSC provides that the contractor shall complete the MWP of the relevant phase, failing which they shall pay money to the Government for the unfinished MWP in accordance with the provisions of respective PSCs. The Government has also put an extension policy in place, wherein the contractors have to provide Bank Guarantees / pay Liquidated Damages for extensions. In phases not exceeding 18 months.

3 In order to encourage exploration in deeper horizons, the Government has now decided to adopt the following transparent policy with regard to substitution of additional metreage drilled in deeper wells against total metreage commitment as part of Minimum Work Programme (MWP) in the production sharing contracts (PSCs):

- (i) The Contractors are permitted substitution of number of exploratory wells in an exploration phase by excess metreage drilled in lesser number of exploratory wells provided at the time of seeking depth compensatin, there ahs been a hydrocarbon discovery from the deeper formations and further, total points / marks calculated, as per the Bid Evaluation Criteria (BEC) for NELP, is equal or more than the points / marks secured based on the number of wells committed under the PSC as part of MWP in such exploration phase.
- (ii) This policy will apply for both NELP and Pre-NELP blocks.
- (iii) The discovery must have been found by the contractor to be of potentially commercial interest and an Appraisal programme for the discovery should have been approved.

- (iv) The excess metreage gained by drilling deeper wells over the exploratory wells committed as a part of MWP as per the new policy or otherwise will not be set off or be compensated from the next phase. Neither will this policy extend or be adjusted against unfinished MWP for those contractors who relinquish a block.
- (v) Other terms and conditions of the contracts will remain unchanged.
- (vi) Any other consequential issue, which may arise during the implementation of this dispensation shall be decided by the Government.