

Government of India
Ministry of Petroleum & Natural Gas
(Exploration Division)

Shastri Bhawan, New Delhi

Dated: 25th June, 2018

OFFICE MEMORANDUM

Subject:- Policy framework for streamlining the operations, relaxation of timelines and delegation of powers to Director General, Directorate General of Hydrocarbons (DGH) under Production Sharing Contracts (PSCs).


To streamline the operations under Production Sharing Contracts (PSCs), the following policy guidelines have been approved by the Government:

- 1. Allow entry to next exploration phase pending resolution on amount payable for Unfinished Minimum Work Programme (MWP) against submission of Bank Guarantee for differential amount in Operational blocks**

In terms of Article 5.7 of PSCs, Contractor has to compute and pay the amount of unfinished MWP within 60 days of expiry of the exploration phase. Further, as per the extant policy dated 10th November, 2014, Contractor can enter into next exploration phase by paying cost of unfinished Minimum Work Programme (MWP) of the previous phase. To expedite the exploration activities, in case of disagreement on the cost of unfinished minimum work programme, and pending resolution of such disagreement, it has been decided that the Contractor would be allowed to enter into subsequent exploration phase subject to the following:

- i) On submission of Bank Guarantee (BG) for the differential unpaid amount of unfinished MWP i.e. the difference of cost of unfinished work programme determined as per policy and approved by Government, and amount paid by the Contractor towards unfinished MWP.
 - ii) The decision regarding liquidated damages (LD) amount payable towards cost of unfinished MWP will be conveyed to the Contractor within one year from entering into next phase but not later than three months before expiry of the exploration phase.
- 2. Grant of area extending beyond Contract Area for appraisal prior to Development Area**


Article 10.15 and Article 11.2 of PSCs contain provisions of enlargement of Development Area in case commercial discovery extends beyond Contract Area. To remove the ambiguity as to whether the Contractor can be permitted to conduct appraisal activity outside the Contract Area during appraisal phase, it has



now been decided to allow the Contractor to carry out the appraisal activities and grant Petroleum Exploration Licence (PEL) in the adjacent area outside the Contract Area on the recommendations of Management Committee to ascertain the extent of the commercial discovery and area thereof provided such area is not of strategic importance, or such area has not been awarded to any other company by the Government or is not held by any other party or is not on offer by Government and no application for a license or lease or Expression of Interest in Hydrocarbon Exploration Licensing Policy (HELP) is pending with the Government.

3. Delegating powers to Director General, Directorate General of Hydrocarbons (DGH) under Production Sharing Contracts

- i) Empowering DG, DGH for approval of Excusable Delays under the Policy for Extension in Exploration Phase, dated 18.04.2006
 - a) Government issued the policy dated 18.04.2006 which *inter-alia* states that demonstrable delays on account of getting government approvals/permits/clearances will be counted as excusable delays. The excusable delays are approved by Government. To expedite the approval process, it has now been decided to delegate the power to DG, DGH to approve cases of demonstrable delays as excusable delays after confirming demonstrable delays within the extant policy framework of 2006.
 - b) The DGH will constitute a Multi- Disciplinary Committee to review and recommend the proposal for final approval of DG, DGH. The DGH would properly define excusable delays and prescribe detailed procedure for allowing excusable delays.
 - c) The DGH would furnish a statement listing out the cases decided with brief facts of each case on quarterly basis to this Ministry.
- ii) Empowering DG, DGH for approval of cost recovery in excess of Appendix H estimates in respect of PSCs signed under NELP-V to NELP-IX, except in case of S-type exploration blocks
 - a) Article 15.13 of PSCs of NELP-V to NELP-IX provides that any material increase in expenditure over benchmark estimates provided in Appendix-H of PSCs shall not be allowed for cost recovery unless the Government, on the recommendations of the Management Committee (MC), agrees that the cost increase is due to change in circumstances after the contract comes into effect. Such excess cost recovery is approved by the Government. It has now been decided to delegate the powers to DGH to approve the cases of excess cost recovery up to 20% in excess of



Appendix -H estimates in respect of PSCs signed under NELP-V to NELP-IX except in case of S-type exploration blocks, subject to the following:

- i) Approval of excess cost recovery would be subject to compliance of conditions/qualifications as laid down in Article 15.13 of PSC read with Section 3 of Accounting Procedure to PSC and principles of cost recovery as prescribed under PSC.
 - ii) DG, DGH will constitute a Multi-Disciplinary Committee to review and recommend the proposal for final approval of DG, DGH.
- b) The cases of excess cost recovery beyond 20% in excess of Appendix-H estimates will be approved by the Government.
- iii) Empowerment to DG, DGH for notification of Audit Exceptions in PSC and prescribing timeframe for appointment of auditors and carrying out of audit.
- a) In order to streamline the appointment of auditor and carrying out of audit, under sections 1.9.1 and 1.9.4 of Accounting Procedure to PSC, the following timelines, read with the relevant Articles of PSCs, have been decided:
- i) Auditor would be appointed in advance but not later than 6 months from the closure of financial year to conduct audit for that financial year.
 - ii) Audit should be carried out within 6 months from the award of the audit.
- b) DG, DGH will notify the audit exceptions under Section 1.9.4 of Accounting Procedure to PSC. DG, DGH would notify Audit exceptions to the Contractor within 60 days from the date of receipt of audit report.


(D.K. Ghosh)

Under Secretary to the Government of India

To,

The Director General, DGH - with a request to convey the above Policy to the E&P Operators and also to host the same on the website of DGH.