

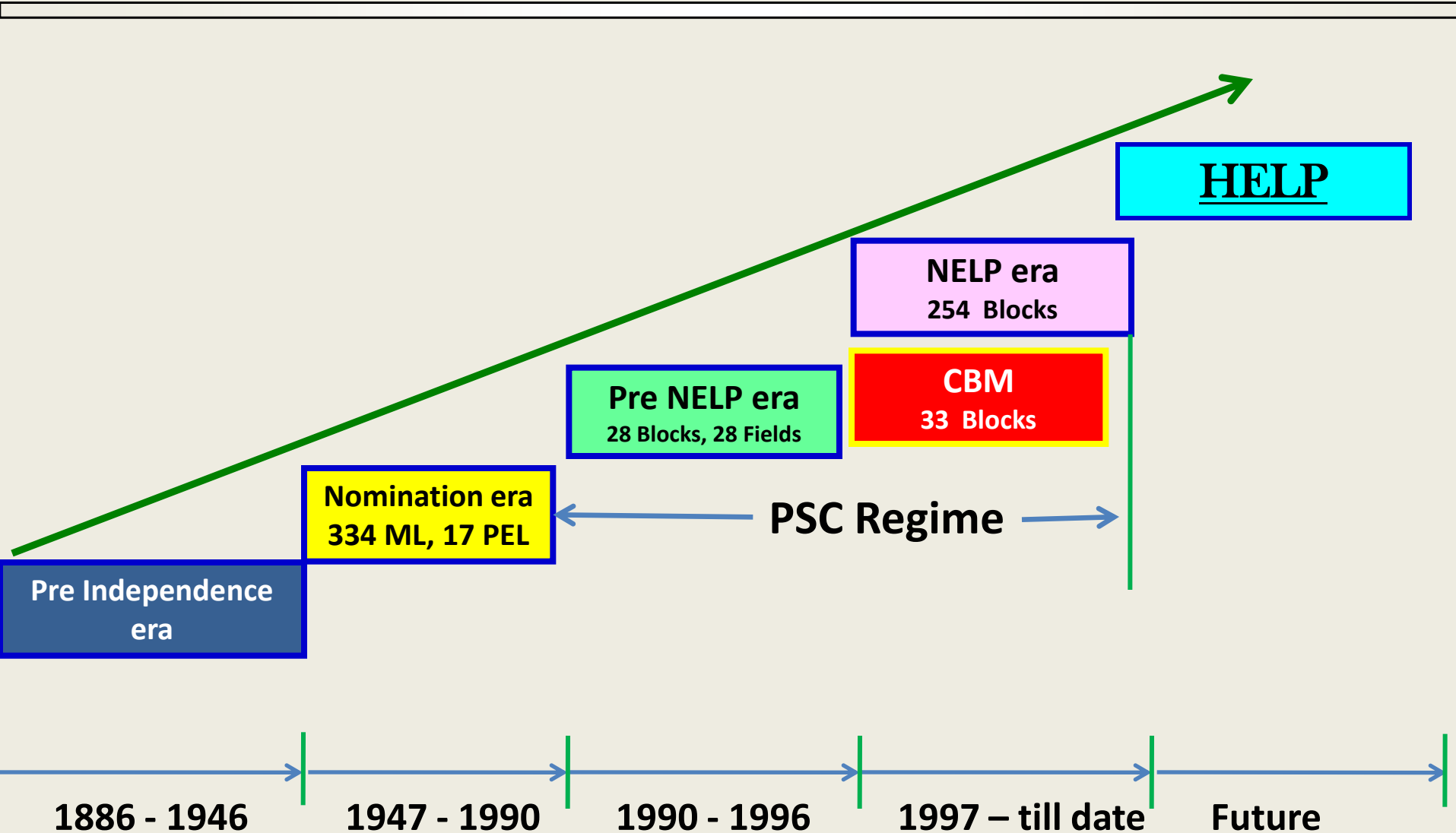
MINISTRY OF PETROLEUM & NATURAL GAS

A PRESENTATION ON RECENT POLICY DECISIONS

Hydrocarbon Exploration Licensing Policy (HELP)

**A new contractual and fiscal model for award of
hydrocarbon acreages**

Exploration & Production Regimes in India



Hydrocarbon Contracts- Learning's from two decades of PSC

Hydrocarbon Exploration Licensing Policy (HELP)

- **Union Cabinet approved the Hydrocarbon Exploration and Licensing Policy (HELP) on 10.3.2016**
- **Guiding Principles**
 - **Enhance Domestic oil and gas production**
 - **Bring substantial investment**
 - **Generate sizable employment**
 - **Enhance Transparency**
 - **Reduce Administrative Discretion**

Hydrocarbon Exploration Licensing Policy (HELP)

- **Four main facets of HELP**
 - **Single License**
 - **Open Acreages**
 - **Revenue Sharing Model**
 - **Marketing and Pricing Freedom**

Hydrocarbon Exploration Licensing Policy (HELP)

- **Salient Features**

- **Single License for exploration and production of conventional as well as non-conventional hydrocarbon resources**
- **Open Acreage Policy-option to select the exploration blocks without waiting for formal bid round.**
- **Revenue Sharing Model-simple, easy to administer- no cost recovery - no micro-management by the Government - operational freedom to the operator**
- **Pricing and Marketing Freedom- a major incentive for investment**

Hydrocarbon Exploration Licensing Policy (HELP)

- **Exploration allowed through-out the contract period**
- **Increase in exploration phase- Exploration Phase for onshore areas have been increased from 7 years to 8 years and for offshore increased from 8 years to 10 years.**
- **Minimum Regulatory Burden-ease of doing business**
- **Role of MC-No micro-management, no control over budget and expenditure**
- **Government Audit- limited only to production and revenue**
- **Significant Reduction in administrative discretion through greater freedom to the operator.**

Hydrocarbon Exploration Licensing Policy (HELP)

- **The new model would eliminate the areas of disputes in contract such as**
 - **Cost Recovery related issues**
 - **Calculation of I.M.**
 - **Cost of unfinished Work Programme**
 - **Rigidities in time-lines**
 - **Procurement Issues**
 - **Delays in implementation of FDP**
 - **Other issues such as royalty, audit exceptions, compliance of other PSC provisions**

Hydrocarbon Exploration Licensing Policy (HELP)

- Reduced Royalty rates for offshore blocks

| Blocks | Duration | Present NELP Royalty Rates | | HELP Royalty Rates | |
|------------------|---------------|----------------------------|-----|--------------------|------|
| | | Oil | Gas | Oil | Gas |
| Shallow Water | - | 10% | 10% | 7.5% | 7.5% |
| Deep Water | first 7 years | 5% | 5% | 0% | 0% |
| | after 7 years | 10% | 10% | 5% | 5% |
| Ultra Deep Water | first 7 years | 5% | 5% | 0 % | 0 % |
| | after 7 years | 10% | 10% | 2% | 2% |

- For **onshore areas** royalty has been kept same i.e. 12.5% for oil and 10% for gas so that there is no impact on revenue to the State Governments.

Hydrocarbon Exploration Licensing Policy (HELP)

Comparison- HELP Vs NELP

| Parameter | HELP | NELP |
|--|---|---|
| Fiscal Model | Revenue sharing | Profit sharing |
| Cost recovery | Not applicable | Yes |
| Cost efficiency | Encouraged | Neutral |
| Royalty | Low rates for offshore | Standard rates |
| Exploration Period | Onland and Shallow Water- 8 years Deepwater & Ultra-deepwater - 10 years | Onland and Shallow Water- 7 years Deepwater- 8 years |
| Management Committee | More focus on reservoir monitoring; no micro-management | Technical & financials examination |
| Revenue to Government | On production | After cost recovery i.e. from profit petroleum |
| Exploration in ML areas | Allowed | Not allowed |
| E&P activity for all hydrocarbons | Allowed | Not allowed |

Marketing and Pricing Freedom for Gas Discoveries in Deepwater and Ultra Deepwater Areas

- Exploration and development of hydrocarbons from difficult areas involves more risks and costs.
- Realizing this, Government, decision in October 2014, provided for a premium on the gas to be produced from future discoveries in such areas.
- The policy provides for giving marketing and pricing freedom to the gas from existing discoveries which are yet to commence commercial production as well as future discoveries.
- This will incentivize exploration and production in deep/ultra deep/HPHT areas and will unlock huge hydrocarbon potential.
- Considering the imperfections in gas markets in India, to protect the interests of the consuming sector, a ceiling based on the landed cost of the alternate fuels has been imposed.

Marketing and Pricing Freedom for Gas Discoveries in Deepwater and Ultra Deepwater Areas

- The ceiling price shall be the, lowest of the
 - Fuel oil import landed price
 - Weighted average import landed price of substitute fuels ($0.3 \times$ price of coal + $0.4 \times$ price of fuel oil + $0.3 \times$ price of naphtha) and
 - LNG import landed price.
- The ceiling will be calculated once in six months. The price data used shall be the trailing four quarters data with one quarter lag.
- The policy guidelines would be applicable to future and existing discoveries which are yet to commence commercial production as on 1.1.2016.
- Not to be applied to existing discoveries where arbitration is there on gas price.
- The decision is expected to lead to monetization of the order of 6.75 tcf valued at 28.35 Billion USD (1,80,000 Crore)

Policy for the Grant of Extension to the Production Sharing Contracts for small and medium sized discovered fields

- This policy provides for a uniform, non-discretionary framework for extension of contract in respect of 28 Pre-NELP discovered fields.
- Provision for extension exists in the Production Sharing Contracts, on mutually agreed terms and conditions.
- A decision on extension, well in advance, will enable the contractors to take investment decision in time.
- During the extension period, it is proposed to increase the Government take by way of
 - charging normal royalty and cess in place of concessional royalty and cess charged during the original contract period.
 - The profit petroleum during extension period will also be 10 percent higher than the normal percentage

Policy for the Grant of Extension to the Production Sharing Contracts for small and medium sized discovered fields

- ✓ Will lead to additional government revenue of Rs. 2890 Crores on account of additional royalty and cess as compared to present concessional regime.
- ✓ Care has been taken to ensure that fiscal regime during extension period is not regressive.
- ✓ The reserves which are likely to get monetized during the extended period are of the order of 15.7 MMT of oil and 20.6 MMT of Oil Equivalent of gas.
- ✓ The reserves associated with this field would lead to monetization of reserves worth USD 8.25 Billion (around 53000 Crore).
- ✓ The monetization of these reserves would require an additional investment of USD 3 to 4 Billion

Thanks