

No: O-32011/89/09-ONG.I
Government of India
Ministry of Petroleum & Natural Gas
Shastri Bhawan, New Delhi

15th June, 2011

~~Sub: Pricing & Commercial Utilization of Coal Bed Methane (CBM)~~

Coal Bed Methane (CBM) commercial production commenced in India in Raniganj (South) CBM Block in West Bengal from July, 2007. In near future, commercial production in more CBM blocks i.e. one of Raniganj (East) in West Bengal, two blocks in Sohagpur in Madhya Pradesh and the one of Jharia block in Jharkhand will commence. The current level of CBM production is 0.16 mmscmd in the country and is expected to go up to 7.4 mmscmd by 2014-15. The pricing of CBM gas is subject to approval by the Government in accordance with the provisions of Article 18 of the CBM contract.

2. The Empowered Group of Ministers (EGOM) constituted to take decision pertaining to commercial utilization of natural gas decided to allot gas in utilization in an order of priority. The prevailing Gas Utilization Policy of the Government needs to be followed by the CBM operators. Accordingly, in order to arrive at uniform principles for CBM pricing and to implement commercial utilization of CBM gas as per the Government's Policy which is in consonance with the provisions of CBM contracts signed by the Government with the operators, Ministry of Petroleum & NG issues the following guidelines as pricing and commercial initialization of CBM gas:

1. The CBM gas price approval by the Government shall be in accordance with the provisions of Article-18 on "Sale of CBM" in the Contract signed by the Company(ies) with the Government.
2. The Operator needs to take approval of the Steering Committee for recommendation of Delivery point(s) for the CBM Block, as per the provisions of the CBM Contract. The delivery point shall be the point at which CBM gas reaches

the outlet flange of the delivery facilities located in the contract area and different delivery points may be established for the purpose of sales. The Contractor shall have the right to use CBM gas produced from the Contract Area for the purpose of CBM operations, including captive power generation for CBM operations, as per the CBM Contract.

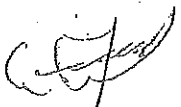
3. In order to utilize the CBM gas for priority sectors, Operator of the block should inform MOP&NG about the quantity, location, time-frame and other conditions of expected availability of CBM gas at the time of taking the investment decision for production. The information should be suitably updated from time to time depending on the quantities of gas availability. The Operator should concurrently inform relevant administrative Ministries, especially Department of Fertilizers and Ministry of Power, and State Governments regarding the expected availability of CBM gas in various regions under intimation to MOP&NG. This would enable the relevant investment decisions in various sectors to be made well in time, as it requires, in some sectors a minimum period of three years for a new project to take shape. The time would also be sufficient for the Operator to undertake price discovery among the priority sectors/customers. Customers of CBM gas should be selected by the Operator from the proposals received from inter alia relevant administrative Ministries and State Governments on the basis of Government's Gas Utilization policy. It is only after the process of identification of priority sectors/customers and subsequent price discovery is undertaken that the customers can go ahead with the financial closure and execution of their projects. At the same time, it makes it simpler for the Operator to take their investment decisions, as there is certainty regarding marketing issues.
4. The prevailing gas utilization policy of the Government needs to be followed by the CBM Operators for cases where peak CBM production during the lifetime of the project is to exceed 0.5 mmscmd.
5. The Operator must provide required information/data including delivery point(s) in the block, details of prospective consumers, reserves established in the block, production profile, prevailing gas prices in the area, etc. to Directorate

General of Hydrocarbons (DGH)/Government for approval of CBM gas price. The Operator is required to discover the market determined gas price amongst identified priority sectors/customers on the basis of arms-length principles in accordance with the provisions of Article -18 of CBM contract. The operator should call for bids from identified priority sectors/customers for CBM gas price at delivery point. The proposal for approval of gas price should be submitted indicating price in US\$ per mmbtu along with conversion factor.

6. The Government would approve or suitably modify the Contractor's proposal regarding price of CBM gas, taking into account, inter alia, the following:-

- a) The price of dominant indigenous gas in the region at the relevant delivery point,
- b) The delivered price of the dominant indigenous gas to the identified customers of CBM gas. (in case there is no connectivity from the dominant source of indigenous gas to the CBM customers price of envisaged/notional transportation infrastructure could be considered), and
- c) The price of alternative fuels.

3. The above guidelines need to be adhered to by the CBM contractors.


(Dependra Pathak)
Director (Exploration -I)