Policy I / Merger / 2007

POLICY FOR MERGER OF EXPLORATION PHASES UNDER NELP-III & NELP-IV (SHALLOW AND DEEP WATER 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 had 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:**
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> **(a) full details, with supporting documentation, demonstrating that a timely rig search was performed,**
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> **(b) verification that a rig contract has been executed prior to lease expiration, and**
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> **(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.