Oil & gas policy

Good policy marred by poor implementation—this sums up India's oil and gas exploration history. Will the new uniform licensing policy change the country's hydrocarbon scene?

BY **RICHA MISHRA**

Despite an excellent production-sharing contract (PSC) regime, Indian oil and gas block auctions have not attracted the big daddies in the business, the Exxons and the Chevrons. The reason, according to those tracking the industry, is the "uncertainty in policy implementation" and "government interference".

Underachievement

The New Exploration Licensing Policy (NELP) was created in 1997. Between 1998 and 2012, there were nine rounds of oil and gas block auction, in which 254 blocks were awarded. Of these, 178 are active and 78 have been relinquished.

Although 126 discoveries have been made in 41 active blocks, commercial production has commenced only in three blocks. The reasons for the delay vary from inadequate technology to delayed regulatory approvals. Today, only two blocks—the Reliance Industries-operated D6 block and the Gujarat State Petroleum Corporation-operated Cambay onshore block—are producing oil or gas.

Uniform licensing

The proposed Uniform Licensing Policy for award of hydrocarbon acreages under a new contractual system and fiscal model will lift all restrictions on explorers hunting for hydrocarbons. In keeping with what the explorers have been seeking for long, they can hunt for all kinds of resources: oil, gas, coal-bed methane and shale.

Until now, the country has been offering exploration blocks under specific policies: NELP for oil and gas, and CBM policy for coal-bed methane.

The blocks for the tenth round of NELP auctions will be offered under the new policy. This time too the hitch is the fiscal regime, with policymakers yet to reach a consensus. The new policy does away with the current system of cost recovery and replaces it with an incremental production-based system. Under the cost recovery concept, a contractor first recovers his expenditure before sharing the profit with the government.

Under the production-linked system, the government starts earning revenues from day one of production. According to the Petroleum Ministry, this regime will also mean less intervention in routine exploration activities.

Implementation issue

However, those in the hydrocarbon business in India and even some within the government endorse the cost recovery regime. They argue that the PSC contract regime is the most appropriate one because the risk is divided. They say the government could opt for different fiscal regimes for onshore and deepwater blocks.

The cost recovery regime requires close scrutiny of costs since there is an incentive for the contractors to book as costs all expenses that do not reflect the true economic cost to them.

A shift in regime may not directly result in more revenues for the government but it will ensure that as the contractor earns more, the government will get progressively higher revenue.

Besides, it will also safeguard the government's interest in case of a windfall arising from a price surge or a surprise geological find.

Uniform exploration will also mean there will be no overlaps of blocks for exploring oil, gas, shale or CBM.

A major challenge before the government will be to monitor all the fiscal regimes without being intrusive. Can it be done?

Some aspects of NELP

NELP was conceptualised during the Congress government of P.V. Narasimha Rao **in 1991-1996.**

The policy was **approved and announced in 1997** when the United Front government was in power.

The National Democratic Alliance government invited bids for exploration block in **first NELP round (NELP I) in January 1999.**

Pricing of crude oil and natural gas discovery is on market basis. But gas pricing formula requires Government of India approval. Hence, gas pricing is not linked to cost of production.

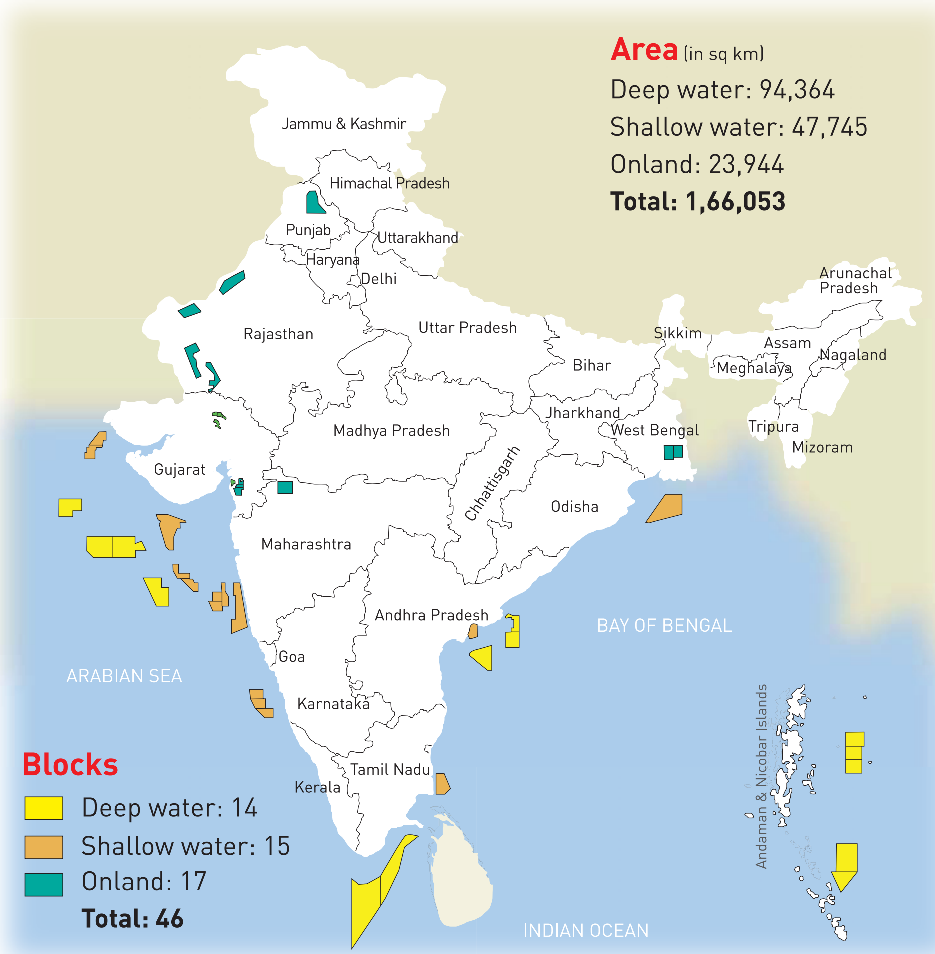
The award of exploration blocks are governed by **production-sharing contracts** (PSCs), which allow cost recovery up to 100 per cent.

These major features made NELP attractive for a country like **India where prospectivity to oil and gas has been low**. Moreover, oil and gas exploration needs high investment in terms of money and deployment of high-end technology, which has been beyond the capacity of domestic national oil companies.

The **KG D-6 block** was awarded in the first round and the PSC was signed in April 2000.

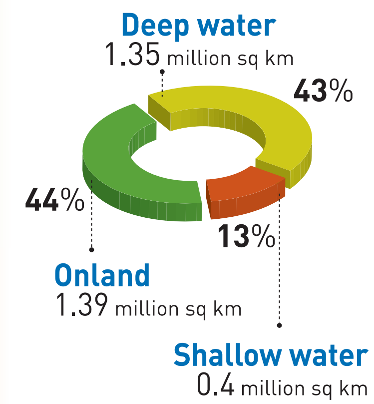
In October 2002, **the operator, Reliance Industry Limited, made a discovery of gas that was touted as the biggest find in the world**.

NELP X: Blocks on offer



26 sedimentary basins

Total area: 3.14 million sq km



Achievements under NELP

- An area of 1.50 million sq km awarded (48% of total sedimentary area)
- A total of 254 blocks awarded in nine rounds
- $21.32 billion invested ($12.51 billion on exploration and $8.81 billion on development)
- Government has received $657 million as royalty and profit petroleum till 2012-13
- India joined the global deep water players with first deep water oil production in September 2008
- A total of 128 hydrocarbon discoveries (46 oil and 82 gas) made in 42 blocks

Policy frame for oil and gas blocks

1956 to 1991 National oil companies (NOCs) were offered exploration blocks on nominations

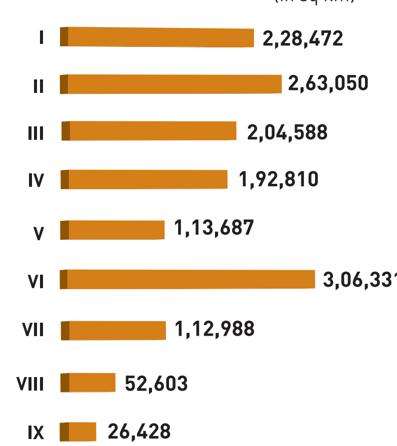
1991 to 1993 Three bidding rounds of small and marginal fields discovered by ONGC and OIL were offered to other companies

1993 to 1995 (pre-NELP) Six rounds of bidding to attract private investments in exploration and development with NOCs as licensees

1997 onwards Award of blocks under New Exploration Licensing Policy

1999 First bidding round; nine rounds are completed so far; 254 blocks awarded and 148 in operation under NELP

NELP round-wise area of awarded blocks (in sq km)



Source: Directorate General of Hydrocarbons