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Government of India
Ministry of Petroleum & Natural Gas

17th December 2007
Shastri Bhawan, New Delhi

To

The DG
DGH
NOIDA, UP.

- Subject:(1) Policy for determination of cost of unfinished Minimum Work Programme/committed work programme for Exploration Blocks under Pre-NELP and NELP Contracts.**
- (2) Policy for extension of Exploration phases for exploration and Production under Coal Bed Methane contracts.**

Sir,

I am directed to refer to proposals received from DGH regarding payments made by contractors towards unfinished work programme under various exploration blocks. I am also directed to refer to the DGH proposals seeking extension of exploration phases under coal bed methane contracts.

With a view to consider such proposals on uniform & transparent criteria, the Government has formulated the following policy guidelines:

- (1) Policy for determination of cost of unfinished Minimum Work Programme/committed work programme for Exploration Blocks under Pre-NELP and NELP Contracts (Policy III/Determination of cost of Unfinished minimum work programme/2007).**
- (2) Policy for extension of Exploration phases for exploration and Production under Coal Bed Methane contracts (Policy IV/CBM extension/2007).**

Copies of these two Policies are enclosed for ready reference.

These Policies may be circulated amongst the Companies operating Production sharing Contracts in India and they may be informed that these guidelines should be observed for determining the amount for un-finished work programme on relinquishment of the blocks and for seeking extension of time for Exploration Phases under CBM contracts.

The existing CBM contracts in which exploration phases have not been extended beyond 6 months, in view of formulation of policy guidelines, may be reviewed and recommendations forwarded to ministry based on merits of the case, after complying with the terms and conditions of the policy.

DGH is also requested to review all past cases where contractors have made provisional payments to government towards un-finished minimum work programme, in accordance with this policy and submit a proposal to ministry in order to ensure that the pending cases may be resolved within the time frame given in the policy. DGH is also requested to ensure that if there is delay in payments for un-finished minimum work programme beyond the time specified as per relevant article in PSC, the contractor deposits the amount with interest at the rate specified in the Accounting procedure to PSC.

The receipt of this letter lay kindly be acknowledged.

Yours faithfully,

(Sunita Sharma)
Under Secretary to Government of India

Policy III/Determination of cost of Un-finished minimum work programme/2007

Policy for determination of cost of unfinished Minimum Work Programme/committed work programme for Exploration Blocks under Pre-NELP and NELP Contracts

The Government has signed various Production Sharing Contracts (PSC) during pre-NELP and NELP rounds which provide a commitment on the part of contractor to carry out minimum work programme (MWP), as specified in various exploration phases. The PSCs signed till NELP V envisage three (3) exploration phases and those signed under NELP VI consist of two exploration phases. The work programme bid by the companies is stipulated as committed work programme in each of the exploration phases of the respective PSCs. Under NELP-VI PSCs, the committed work programme also includes mandatory work programme in addition to the work programme bid by the contractor.

2. The specific duration of each of the exploration phases is provided in the PSCs. For onland and shallow water blocks, the maximum duration of exploration phases is 3 years, 2 years and 2 years for phase-I,II and III respectively with the total period not to exceed 7 years. In case of deepwater and frontier area blocks, generally the duration of phases is 4 years, 2 years and 2 years respectively with the total period not exceeding 8 years. Under NELP-VI PSCs, the exploration period is divided into two exploration phases of 4 years and 3 years respectively in case of onland and shallow water blocks and 5 years and 3 years respectively in case of deepwater and frontier area blocks. However, the duration of these phases is subject to any extension granted by Government pursuant to the provisions of the PSCs or as per the extension policy formulated by the Government.

3. The PSCs generally have an extension clause which provides an extension of exploration phase by 6 months with set-off from the next exploration phase, with the approval of Management Committee or the Government as the case may be, to complete MWP. It also provides for an extension of 6 months to carry out additional exploration programme. Moreover Contractors have been seeking extension in exploration phases beyond the timelines specified in the PSCs which are being governed by the extension policy approved by the government.

4. In case the contractors do not fulfill the minimum work programme/committed work programme within the stipulated period, they are required to pay money for the unfinished minimum work programme, if any, to the Government and while determining the said amount, it is provided under the PSC that all available relevant information including the budget and modern oil field and petroleum industry practices are to be taken into account.

5. It has been observed that recently few contractors have relinquished Blocks by depositing the money towards un-finished work programme with the government. The amount has been calculated and paid by contractor based on certain assumptions about

drilling depth; cost calculations based on dry well principle; drilling rates on day rate basis (as different from metre rate basis) drawn from running contracts of drilling and services etc. It is also observed that these assumptions are vulnerable to different interpretation as per PSC provisions. Since large stakes of the Government are involved, a transparent and consistent policy has been framed by the government for determination of amounts towards unfinished work programme in line with the PSC provisions. Besides, the policy envisages that the amount determined should be such so as not to penalize the contractor and at the same time it must act as a deterrent for contractors in order to ensure that they complete its minimum work commitments.

6. With above objectives, the following policy has been framed which will be followed by contractor parties while determining the amount of un-finished work programme and depositing the same with the government:

- i. The cost of unfinished Work Programme relating to an exploratory well will be determined on dry well principle.
- ii. The well depth committed by companies under minimum work programme (MWP) will be considered for purposes of computing the cost of un-finished well as this has been the criteria for evaluating the bids and award of the blocks.
- iii. Well cost will be calculated by computing the number of days required for drilling various stages as per the well construction / casing policy. The Geo-Technical order of the well and data of related wells will be taken into consideration for estimation of drilling time.
- iv. The well design for unfinished wells will be similar to the wells drilled in the same Block. If no wells are drilled in the same Block, the well design will be similar to wells in neighboring blocks.
- v. The day rates will be considered from the valid running contracts for Rigs, Services and Consumables. DGH will be maintaining the cost data for each of the exploration activities, separately for different areas/regions based on the current prevailing market conditions, which will be revised every six months with the approval of the Government. In case the computed rates of the un-finished work programme by the contractor are lower than the cost data bank maintained by DGH, the amount towards un-finished work programme will be recovered from Companies on basis of cost data of DGH.
- vi. In case the contractor uses captive rigs and services for its operations, the amount of un-finished work programme will be determined on basis of prevailing market rates in the same area/basin and DGH will verify the amount with the figures of cost data maintained for each area/basin.

- vii. Cost of each activity of un-finished work programme will be computed as per format given in Appendix-H of model PSC.
- viii. 2-D & 3-D seismic costs will be computed based on prevailing rates in the area for acquisition, processing and interpretation and will not be less than the cost data of DGH.
- ix. The competent authority to approve the final amount toward un-finished work programme will be the Government based on the proposal received from DGH.
- x. In blocks, where provisional payments have already been made by the contractors to the Government, the amounts for unfinished work programme will be calculated and finalized in accordance with this policy and the contractors will make the balance payments, if any, to the Government within a period of 15 days from notification of the amounts so determined expeditiously.
- xi. Any consequential issue, arising out of the implementation of this policy, will be decided by the Ministry of Petroleum & Natural Gas.

Policy IV/ CBM extension/2007

POLICY FOR EXTENSION OF EXPLORATION PHASES FOR EXPLORATION AND PRODUCTION UNDER COAL BED METHANE CONTRACTS

The Government of India has signed 26 contracts for exploration and production of coal bed methane under three rounds of CBM which are currently under various stages of exploration. These have been signed within the framework of Coal Bed Methane Policy (CBM) and generally provide 6 months extension of each of exploration phases I & II to complete the unfinished Minimum Work Programme (MWP), with the approval of Steering Committee. The objective of the CBM policy has been to stimulate exploration and production of coal bed methane in the country.

2. In the past, a number of proposals seeking extension in the exploration phases have been received by the Government from contractor parties citing numerous reasons. The main reasons for seeking extensions in Exploration Phases are:

- Delay in getting environmental clearance from the State/Government authorities.
- Procedural delays in acquisition of land for performance of CBM activity.
- Law and order problems in the State
- Delays because of non availability of suitable deep core hole drilling rigs in the market.
- Delays on account of Force Majeure conditions

3. As per the model CBM contract, the duration of exploration phase (Phase I & II) is maximum up to 8 (3+5) years. However, in order to encourage early exploration, there is a provision in the Bid Evaluation Criteria (BEC) to secure a maximum of 3.5 points (1 year in phase-I & 2.5 years in phase-II) by reducing the exploration period by 3 year from a total exploration period of 8 year under phase-I & II (i.e. 0.5 points for each 6 month reduction in the period). In order to secure maximum points, the companies while bidding have been offering expeditious exploration by reducing the exploration period.

4. The non-completion of committed work programme within the scheduled time as specified in the respective Contracts has several tangible and intangible effects on the entire process of exploration endeavors. Some of the major implications are:

- The very purpose of accelerating and increasing the efficiency in exploration will be defeated and it may trigger complacency.

- The blocks are awarded on the basis of Phase wise committed work programme along with timeframe. Extensions vitiate the integrity of the bidding process and spirit of contracts.
 - The principal aim of equal opportunity, fair chance to all, transparency of the system is affected by frequent extensions.
5. In order to adopt a transparent and consistent framework for granting extension in exploration phases, the Government in line with the existing policy of extension under NELP contracts, has framed an extension policy for considering proposals seeking extension in exploration phases under CBM contracts, which are either pending with the Government or may be received in future. The extension in phases under CBM Contracts in terms of these policy guidelines would be considered within the validity of the exploration period of 8 years. The broad objective of the extension policy is as under:
- i) To maintain the integrity of the bidding process and the spirit of the Contract to explore and produce CBM gas early.
 - ii) To grant reasonable extension of time so as to enable contractors to complete MWP or additional exploration work programme.
 - iii) Not to delay the execution of development plan or production or the life cycle of the entire project and payment of Royalty, taxes and contractual payments.
 - iv) To act as deterrent for seeking unnecessary extension or holding on acreages without doing any or little exploration activities or activity at slow pace.
 - v) The policy envisages a system of penalty by way of submission of bank guarantee and pre-estimated agreed Liquidated damages (in some cases/ situations) in lieu of un-finished or additional work programme. While proposing the amount of Bank guarantee, situations/factors such as whether extension is for completing MWP or additional Work Programme, whether commerciality has been established in the contract area, whether contractor wants to retain the area for further exploration have been kept in mind.
 - vi) Up to 6 months extension may be given by the Steering Committee or the Government on merit in terms of the provisions of the respective Contracts.
 - vii) Demonstrable delays on account of getting Government approvals/permits/ clearances which are not attributable to the contractors will be counted as excusable delays and such delays shall be condoned. In this regard, if some extensions have already been granted by Steering Committee/Government on account of excusable delays, which took place from effective date of the Contract i.e. including delays prior to the extension policy coming in force, the same will be regulated as per this CBM extension policy.

viii) In case, the contractor does not fulfill the work programme within the stipulated period or extended period, as may be the case, he shall be required to pay money for the unfinished work programme, if any, to the Government in terms of the respective provisions of the contracts.

1. With the above broad objectives in view, the Government has decided to put in place the following policy for grant of extensions. The proposals falling in various categories enumerated below in the table will be considered by the Government as per the respective terms and conditions stipulated against each such category.

Sl. No.	Type of proposal (applicable for extension in Phase-I & Phase-II)	Terms and conditions	
1.	Extension sought due to delay in issuance of Government Clearances/permits:	Any demonstrable delays will be counted as excusable delays and extension granted shall not be set off.	
2.	Where Minimum Work Programme (MWP) of the relevant phase has not been completed within the stipulated period of that phase and extension is sought in Phase-I & II to complete MWP (excluding excusable delays)	Applicable both in Phase-I & Phase-II.	
		First six months may be granted by Steering Committee in terms of respective Contract.	
		7-12 months	An additional up to 6 months extension may be granted on the following terms & conditions: (i) The contractor will provide 50 % Bank Guarantee (BG), the amount to be calculated keeping in mind the relevant factors in computing the cost of such un-finished work programme. (ii) The period of extension will be set off from next phase. (iii) The contractor would be required to relinquish the area as per contract.
13-18 months	Any extension beyond 12 months and up to 18 months may be considered subject to following: (i) The contractor will provide 75% Bank Guarantee (BG) and 15%		

			<p>pre-estimated agreed Liquidated damages for the remaining MWP, the amount to be calculated keeping in mind the relevant factors in computing the cost of such unfinished work programme as per Contractual provisions.</p> <p>(ii) The period of extension will be set off from next phase</p>
3.	Where MWP has been completed and extension has been sought for completing additional Work Programme in Phase-I and Phase-II.	Applicable both in Phase-I & Phase-II	
		0-6 months	First six months may be granted by Steering Committee in terms of Contract.
		7-12 months	<p>An additional up to 6 months extension may be granted on the following terms & conditions:</p> <p>(i) The contractor will provide 35% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase.</p> <p>(iii)The contractor would be required to relinquish the area as per contract.</p> <p>(iv)The additional work programme will be rdeasonably decided by DGH in consultation with the contractors.</p>
		13-18 months	Any extension beyond 12 months and up to 18 months may be considered subject to following:

			<p>(i) The contractor will provide 50% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase,</p> <p>(iii)The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>
4.	Where MWP has been completed and Commercial viability has been established as per terms of contract; and Contractor wants to carryout additional work programme.	Applicable both in Phase-I & Phase-II	
		0-6 months	First six months may be granted by Steeing Committee in terms of Contract.
		7-12 months	<p>An additional up to 6 months extension may be granted on the following terms & conditions:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase.</p> <p>(iii)The contractor would be required to relinquish the area as per contract.</p> <p>(iv)The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>

		13-18 months	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of extension will be set off from next phase.</p> <p>(iii) The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>	
5.	Where MWP has been completed, however Commercial viability has not been established and Contractor wants to carry out additional Work Programme. (For Phase-II only)	Applicable both in Phase-I & Phase-II		
		0-6 months	First six months may be granted by Steeing Committee in terms of Contract	.
		7-12 months	<p>An additional up to 6 months extension may be granted on the following terms & conditions:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii) The period of</p>	(v)

			<p>extension will be set off from next phase.</p> <p>(iii)The contractor would be required to relinquish the area as per contract.</p> <p>(iv)The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>	
		13-18 months	<p>Any extension beyond 12 months and up to 18 months may be considered subject to following:</p> <p>(i) The contractor will provide 50% Bank Guarantee (BG) and 10% pre-estimated agreed Liquidated damages for the remaining additional work programme, the amount to be calculated keeping in mind the relevant factors in computing the cost of such work programme.</p> <p>(ii)The period of extension will be set off from next phase,</p> <p>(iii)The additional work programme will be reasonably decided by DGH in consultation with the contractors.</p>	