

MOST IMMEDIATE

**O-22013/27/2012-ONG-D-V
Government of India
Ministry of Petroleum & Natural Gas**

Shastri Bhawan, New Delhi
Dated: 10th November, 2014.

To,

Director General,
Directorate General of Hydrocarbons,
OIDB Bhawan, Plot No. 2, Sector -73
Noida (U.P)-201301.

**Subject: Policy Framework for Relaxations, Extensions and Clarifications
at the development and Production Stage under the PSC
Regime for Early Monetization of Hydrocarbon Discoveries.**

Sir,

Please find enclosed herewith a copy of approved Policy Framework for Relaxations, Extensions and Clarifications at the development and Production Stage under the PSC Regime for Early Monetization of Hydrocarbon Discoveries for appropriate necessary action.

Yours faithfully,


(Nalin Kumar Srivastava)
Deputy Secretary (E-II)
Tel No. 23386626

Policy Framework for Relaxations, Extensions and Clarifications at the Development and Production Stage under the PSC Regime for Early Monetization of Hydrocarbon Discoveries

No.22013/27/2012-ONG D.V.— The Government of India hereby notifies “Policy Framework for Relaxations, Extension and Clarifications at the Development and Production Stage under the PSC Regime for Early Monetization of Hydrocarbon Discoveries” as hereunder:

1. Extension of time period for submission of Declaration of Commerciality (DOC) in respect of Hydrocarbon discovery:

1.1 The appraisal period for a discovery begins with notification of Potential Commercial Interest (PCI) for the discovery and ends with the submission of a report on Declaration of commerciality (DOC). The appraisal period varies from 18 months to 60 months. The Director General of Hydrocarbons (DGH) is empowered to take following decisions on the recommendations of Management Committee:

- a) To grant extension of appraisal period by 6 months for on-land blocks and by 12 months for offshore blocks, wherever MC is satisfied for reasons to be recorded, about the justification cited by the contractor for such extension. Accordingly, Field Development Plan (FDP) submission date will also get extended.
- b) Liquidated Damages (LD) equal to a maximum of three times Annual Petroleum Exploration License (PEL) fee applicable for the contract area at the time of application, prorated for the period of extension sought (w.r.t base period of six months for on-land blocks and twelve months for offshore blocks) would be levied in all such cases. In other words, LD payable for extension, will be in proportion to the period of extension sought with respect to the applicable base period as per above scale.
- c) If the contractor requests for extension of time period to submit the DOC, and later submits FDP early, then extension given for DOC will be set off against time saved in FDP submission and the LD would be reduced in proportion to the time saved vis-à-vis the time the extension sought by the contractor. This reduced amount of LD can be adjusted by the contractor in the dues payable to central Government at a later stage.
- d) In the case of group discoveries, if earlier discoveries are not viable but become viable with the subsequent discoveries, then the time line for appraisal period for DOC submission and FDP submission will be computed from the last discovery made during the exploration period.

1.2 These provisions will be applicable to all existing and future cases, but will not apply to relinquished areas and relinquished blocks.

2. Extension of time period for submission of FDP in respect of Hydrocarbon discovery:

2.1 Once the DOC is reviewed by the MC, the contractor has to submit a FDP to the Management Committee. The prescribed timeline for submission of FDP is 200 days in case of oil and Associated Natural Gas Discovery (ANG) and one year in case of Non Associated Natural Gas (NANG) discovery from the date of declaration of commerciality. DGH is empowered to take following decisions on the recommendations of Management Committee:

- a) to grant extension up to three months for on-land blocks and up to six months for offshore blocks for submission of FDP.
- b) LD equal to a maximum of three times, the Annual PEL fee applicable for the contract area at the time of application, prorated for the period of extension sought (w.r.t base period of six months for on-land blocks and twelve months for offshore blocks) would be levied in all such cases. In other words, LD payable for extension will be in proportion to the period of extension sought with respect to the applicable base period as per above scale.
- c) The above extension will be over and above the extension granted in Para 1 above for extension of appraisal period and thereof submission of Declaration of Commerciality (DOC).

2.2 This will be applicable to all the existing and future cases but will not apply to relinquished areas and relinquished blocks.

3. Reduction of Minimum Work Programme (MWP) in case of blocks overlapping with Special Economic Zone (SEZ), reserve forest, naval exercise areas, Defence Research and Development Organization (DRDO) danger zones, National parks, urban areas, Firing ranges of Police/Armed Forces, etc.:

3.1 The blocks are offered for bidding after securing clearance from six agencies.

Subsequently, after the grant of PEL for the entire block area, the contractor is required to complete the MWP as per PSC. For completion of MWP, contractor proposes annual work programme for review of MC every year. In some cases, while executing the seismic work and drilling of exploration wells in the block as per MWP, some of the agencies like Ministry of Defence (MOD), Ministry of Environment and Forest (MoEF) and State Government/Departments, who had earlier accorded 'in principle' approval, have denied permission to carry out work in the entire block or a part of it. It has been decided that where the contract area has been reduced due to denial of clearances by Government agencies, DGH is empowered to exercise such powers of proportionate reduction of MWP on the recommendations of MC as follows:

- a) If the Contractor decides not to accept any reduction in area at any stage before Petroleum Mining Lease (PML) is granted, the contractor would be permitted to exit from the Contract without payment of cost of Unfinished Work Program. In such cases, the proposal for

relinquishment shall be submitted within three months of the communication received by the contractor for such reduction.

- b) If the contractor agrees to continue exploration in the reduced area, then he may be allowed a proportional reduction in MWP in 2D, 3D work program and also for drilling of wells rounded off to the nearest integer with a minimum number of one. The choice of the wells to be drilled would be left to the contractor.
- c) PEL for the area not made available for exploration will be cancelled and future PEL fee for the future years would be reduced proportionately in all cases in 3 (b) above.
- d) In case, the Contractor does not exercise his option within three months but proposes to exit from the contract later, it has been decided to impose penalty of liquidated damages to the extent of cost of unfinished MWP proportional to the reduced area. This will be applicable to all existing PSCs.
- e) If delay due to lack of statutory and other clearances is beyond two years in any of the blocks, then the contractor will be given a choice to choose between (a) and (b) above. In such cases the application for such reduction/exiting should be submitted within 3 months of the expiry of the two year period from date of application for clearance.

3.2 These provisions would also be applicable as a one-time measure for existing cases where block has not got clearance as on date for more than two years (within 3 months of notification of this policy).

4. Swapping of 2D (Dimensional) and 3D Seismic Minimum Work Programme:

4.1 There is no provision in PSC to swap 2D seismic survey program of MWP with 3D survey program which may be required due to technical or logistical reasons and vice versa.

4.2 DGH is empowered to approve the swapping of 2D Acquisition Processing and Interpretation (API) data and 3D API data with each other, where it is justified on the basis of technical and logistical merits, after proper scrutiny on recommendations of MC. The basis of conversion would be 1 sq.km. of 3D would be equivalent to 10 Line Kilometer (km). of 2D. This would cover mandatory 2D Seismic API also and will be applicable to the existing and future cases in all PSCs. However, when the contractor has bid for full area 2D and full area 3D, then substitution would not be allowed.

5. Entry into subsequent exploration phases, after paying cost of unfinished MWP of previous phases:

5.1 If the committed Minimum work programme of an exploration phase is not completed, the contractor has to pay the cost of unfinished work programme to the Government as per Article 5.7 of PSC.

5.2 It has been decided that DGH is empowered to determine the payment of cost of the unfinished work program as per Article 5.7 of PSC. This would be interpreted as completion of minimum work program for that exploration phase and the operator, on his request would be allowed to enter into the next phase after such payment.

6. Condoning delays in submission of notice for entering into next phase:

6.1 As per article 3.5 of PSC, the contractor shall have the option, exercisable by giving a written notice to the Government at least 30 days prior to the expiry of relevant phase for entry in to next phase. It is observed that at times operators submit the notice for entering into next phase after the expiry of timelines.

6.2 DGH is empowered to condone delays up to a period of 30 days for giving notice for entering into the next phase, for reasons to be recorded. However, such condonation shall not be construed to mean an extension of the exploration phase, or extension of time for submission of DOC.

7. Condoning delays in submission of Annual Work Programme and Budget and the Appraisal work programme & Budget:

7.1 The contractors are required to submit the annual work programme and Budget within 90 days before commencement of each following year as per article 5.10 of PSC. Further, in case of discovery of oil or gas, contractors have to submit the appraisal work programme and budget within 120 days from the submission of PCI for oil and associated gas discoveries and within one year in case of non- associated Natural Gas as per article 10.3 and 21.5.2 of PSC. It is noticed that at times, the contractors are not able to adhere to these timelines for submission of annual work programme & Budget and appraisal work programme and budget.

7.2 DGH is empowered to condone delays up to a period of three months for submission of Annual Work Programme & Budget and Appraisal Work Program and budget. However, such condonation shall not be construed to mean an extension of the exploration phase, or extension of time for submission of DOC.

8. Drilling of Appraisal Wells after submission of Declaration of Commerciality (DOC):

8.1 DOC is to be submitted by the Contractor after carrying out Appraisal work programme which includes drilling of Appraisal wells. Presently, no appraisal activity is allowed after submission of DOC.

8.2 DGH is empowered to allow drilling of appraisal wells and carrying out other appraisal activities after submission of DOC but before submission of FDP on the recommendations of MC. DGH can also allow such drilling and other appraisal activities on cost recoverable basis such as 2D seismic, 3D seismic, well stimulation and testing etc during the extended appraisal period. However, the timelines as provided in PSC for submission of FDP would continue to apply and these timelines will not be extended on account of approval for drilling of such additional appraisal wells and other additional appraisal activities. Contractor will incorporate the results of new Appraisal wells drilled and other

appraisal activities in the FDP. This will be applicable to all the discoveries made in the existing PSCs where FDP is yet to be submitted. Discoveries for which FDP has already been submitted or the PSC timeline for submission of FDP has expired will not be covered.

9. Probing additional reservoirs during appraisal programme:

9.1 Presently, the appraisal work is restricted only for the discovered reservoir and the contractors are not allowed to probe any additional likely reservoirs in the discovery area. The likely reservoirs may be encountered at shallower or deeper depths or laterally separate reservoirs within the same discovery area. DGH is empowered to allow probing of additional reservoirs as a part of appraisal work program on the recommendations of Management Committee (MC) in following cases:

(a) Probing of additional reservoirs within the same discovery area would be permissible as a part of appraisal work programme. This would also be cost recoverable if Management Committee's approval is obtained for such activities.

(b) In case of a new discovery during such additional probing, an extension of appraisal period up to 6 months for On land blocks and 12 months for offshore blocks will be allowed (without payment of LD) provided the Contractor has not availed the extensions under para 1 above. Consequently, in any case, the total extension in the Appraisal period will not exceed 6 months for on-land blocks and 12 months for offshore blocks.

(c) This change will be applicable for existing and future cases in PSCs.

10. Acceptance of discoveries for which notification to the Government has not been made as per Article 10.1 and / or notification for testing as per Article 10.2 of PSC has not been made:

10.1 It is observed that due to operational reasons, sometimes the Contractor is not able to notify the discovery (within the stipulated period) and also sometimes fails to inform Government prior to carrying out the production testing as required by articles 10.1 and 10.2 of PSC.

10.2 DGH is empowered on the recommendations of MC for the following:

a) The discoveries which have not been accepted as valid discoveries due to non adherence to the timelines as prescribed in article 10.2 of PSC i.e. giving 48 hrs notice prior to the production test, may be accepted as valid discoveries, provided the exploration period has not expired and a Drill Stem Test or a conventional well flow test has been carried out by the contractor, with the following conditions:

i. The Contractor shall provide the requisite production test data immediately after carrying out fresh tests which will be witnessed as per the provisions of PSC, provided the exploration period is not over when the fresh test is done.

ii. The cost recovery of only one of the tests (whichever is lower in value) would be allowed as a penalty for failing to notify the discovery as

provided in PSC. This penalty would be applicable only if the contractor fails to notify otherwise cost recovery of both the tests would be allowed.

b) This will be applicable to all discoveries in existing and future cases of PSCs.

11. The Empowered Committee of Secretaries (ECS) which deals with relaxation of timelines associated with activities of Exploration Phases has been empowered for resolution of operational issues in the implementation of Production Sharing Contract as mentioned below:

- a. Extend time lines prescribed in the PSC pertaining to appraisal, submission of declaration of commerciality, Field Development Plan submission, etc. beyond extant policies, including policies proposed in paras 1 to 10 above.
- b. Issue clarifications related to provisions of PSC and related Government Policies and instructions.