



Petroleum Federation of India

Review of NELP VI & Industry Recommendations for NELP VII

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Disclaimer

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Citation Guideline

Any citation of this paper should ascribe source to “PetroFed – Review of NELP VI & Industry recommendations for NELP VII”.

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1 Background to the ‘Discussion Paper’

1.1 Introduction

- 1.1.1 Petroleum Federation of India (PetroFed) is a federation of 43 companies which was formed with the objective of, *inter alia*, representing and projecting the views of hydrocarbon industry to bodies like the Government and the Regulatory Authority; and thereby facilitating the evolution of policies and regulations relevant to them.
- 1.1.2 It is commonly stated that the terms and conditions of New Exploration Licensing Policy (NELP) regime of India are comparable to some of the best internationally available ones for investments in E&P sector. The crucial areas where significant policy changes in the exploration investment sector have been introduced, pertain to creation of competitive environment for all participants including the National Oil Companies (NOCs), abolition of cess, freedom to market oil and gas, no carried interest by NOCs, ad-valorem royalty payments, additional incentives to explore deep water and frontier areas, transparent Bid Evaluation Criteria (BEC), transparent evaluation process, and such others.
- 1.1.3 In 2005, on the request of Hon’ble Minister, Petroleum & Natural Gas, PetroFed in knowledge partnership with PwC, prepared a paper on “Review of E&P Licensing Policy” which covered review of India’s policy for award of acreages for exploration and production of hydrocarbons. Based on responses of E&P companies and a study of the prevalent international practices, the Paper recommended certain changes/modifications to the policy while rolling out NELP VI. While some of those recommendations, in spirit if not in the same form, were incorporated by the MoPNG before announcement of the Sixth Round of Bidding under NELP, some others were not.
- 1.1.4 Now that the Seventh round of NELP is scheduled to be rolled out, the Government has endeavoured to incorporate modifications to improve upon the last round. The Government is also learnt to be ready for any radical changes in the policy to improve responses of international oil companies for substantial investment in India.
- 1.1.5 Toward this end, PetroFed decided to undertake a similar exercise so as to improve upon NELP VI. Owing to the limited time available, PetroFed decided to undertake following activities with assistance of its member company and knowledge partner, PwC, in a time bound manner:
- a) Prepare a draft ‘Discussion Paper’ to analyse the NELP VI award process;
 - b) Solicit company responses on the draft ‘Discussion Paper’;
 - c) Hold discussions with companies to finalise industry recommendations for modification in policy before NELP VII is rolled out;
 - d) Develop the Discussion Paper incorporating comments by companies, discussions, and research on international practices around issues considered critical by companies;
- 1.1.6 The exercise is now complete and PetroFed has compiled this Discussion Paper for kind consideration by the Government. PetroFed would be happy to conduct a presentation of the final ‘Discussion Paper’, if desired by MoPNG.

1.2 Overview: The Discussion Paper Process

- 1.2.1 This submission of industry views on the recently concluded NELP VI round of award of upstream acreages and recommendations for modification to NELP VII terms, was decided to be made in the form of a Discussion Paper. Rather than wait until the end of the industry discussions process to issue a report on industry views, PetroFed decided that consultation would be more meaningful if it took place through a draft developed in advance of the Discussion Paper.
- 1.2.2 The draft Discussion Paper was accordingly sent to companies on 15th February for review and comments. The Paper was then taken up for substantially building upon through a round of discussions in a meeting scheduled by PetroFed on the 26th February in New Delhi.
- 1.2.3 This Discussion Paper therefore in effect, provides comments provided by the upstream companies on the NELP VI and suggestions for NELP VII. It is intended to stimulate discussion among senior policy makers and associated organizations about how the Government of India can best:
- a) Encourage increased and meaningful exploration activity in India leading towards higher hydrocarbon resource base;
 - b) Address to issues that concern the investor community represented by small, medium and large enterprises; and
 - c) Adopt best practices for improvement in licensing policy.

1.3 Structure of this Discussion Paper

- 1.3.1 In the following chapter titled “**Overview of NELP VI**”, a commentary on the outcome of the NELP VI and its analysis, is captured. This is a broad overview and the detailed analysis is contained in the succeeding chapters.
- 1.3.2 In the chapter titled “**Summary of Recommendations for NELP VII**”, all major recommendations made by companies have been summarised for an executive review.
- 1.3.3 In the chapter titled “Error! Reference source not found.”, those issues are discussed, which have been a cause of concern for the investors or the Government. The issue-wise analysis describes the concerns and provides recommendation(s) made by companies for incorporation in the NELP VII. An effort to arrive at consensual views was made in the meeting and such views have been put across in this section. Any disagreement by companies on any views, have been specifically mentioned. With an objective of putting across all the comments received from the companies, under heading “Other Views by Companies” in each issue discussed, all comments pertaining to the subject received from companies, have been listed. Some of these comments, it may be noted, may be contradictory to views expressed within the section or other consensual view expressed. The section is also supported by any suggestions made by PetroFed in the review conducted post NELP VI under the heading ‘PetroFed’s NELP VI Recommendation’.
- 1.3.4 In the chapter titled “**Score card: Industry recommendations on NELP VI post review of NELP V**”, all major recommendations/suggestions made by PetroFed in August 2005

on behalf of the industry have been tabulated along with comments on whether they were accepted or not-accepted.

2 Overview of NELP VI

2.1 The Success of NELP VI

- 2.1.1 Time for introspection by Indian petroleum sector planners has arrived again. A well conducted, actively participated and methodical phase of NELP VI bidding, evaluation and declaration of winners of the largest acreage in the history of Indian oil & gas upstream sector drew curtains recently. Bidding patterns even in this round have not missed on surprising the stakeholders and the outcome of NELP VI has raised invigorative debate on fundamentals of licensing policy of the Government of India.
- 2.1.2 The National Oil Companies (NOCs) have done well in leveraging upon their ability to accept lower than industry average rate of returns to gain access and control over the E&P acreages, exactly the same trend as is seen in international acquisitions. The prominent domestic and international private oil companies responded well by bidding for majority of the blocks. They are however disappointed since, expectedly, they could not match the aggression of NOCs to maximize the government take.
- 2.1.3 In summary, bidders would tend to bid with a clear intent to win and for that, they would strategise the bids in accordance with the Bid Evaluation Criteria; surprisingly, sometimes at the cost of commercial rationale. This is strongly reflected in excessive work program committed by few, very low 'profit share' with the Government proposed by some bidders for higher brackets of Investment Multiples, and the lower work programmes than NELP V bid by almost all bidders in NELP VI owing to lower weightage this time around. On the other hand, due to underlying competition for access and control of prospective acreages, NOCs and smaller oil companies have displayed a distinct synergy by joining hands in most of the blocks and thereby to some extent demonstrating that relationships between NOCs and private oil companies, which have traditionally been confrontational in international markets, are not a zero sum game and both can benefit by cooperation since they have different interests, objectives, drivers and risk appetite.
- 2.1.4 From the limited perspective of successful completion, good response to the bidding round and award process transparency, the Government of India has come out with flying colours in NELP VI. The point of debate, however, is the objective(s) set by the Government for laying down strategies and policies for upstream sector development and therefore the licensing policy. Though India's Production Sharing Contract (PSC) terms are rated as one of the better ones in the world, the award criteria has undergone changes, albeit well intended, in every round based on lessons learnt in the earlier rounds. For example, while NELP V compelled the Government to reduce work program weightage, it would be reasonable that stakeholders request this time to fix a suitable cap on 'profit share' by companies including NOCs. Resultantly, the changes have indicated varying objectives. The higher weightages for work program indicate intent of attracting more exploration investments, the higher 'profit share' weightage indicate the intent to maximise returns for the Government from the sector on the back of success achieved in NELP; whereas the pre-bid road shows appear to indicate that investment in exploration and development from across the border is necessary for India's upstream sector development. Achieving all these objectives in one go may be difficult, if not impossible. Goes unsaid, the objectives need to be articulated before evaluation criteria speak of the intents.

2.2 Inward Investment in Exploration

- 2.2.1 Notably, in NELP V and probably the results of NELP VI would indicate that, the investment by foreign oil companies was forthcoming but has got locked up in the realm of policy as expressed in the form of evaluation criteria. In retort, one would not be out of place to question if India would ever need any inward investments for meeting the exploration requirements. If the work commitments given in NELP V are to be any indication of average investment needed per square km, exploration of balance of area would need around US\$ 25 to 40 billion. Indian NOCs and private sector are financially strong and would be willing to pledge these volumes in the next 10 years. This would be further ensured if the prospectivity of Indian basins is good – as proven in KG basin or Mumbai High – and if availability of ‘Big Oil’ windfall profits continues. Additional risk capital for the sector has also been offered by some construction, oilfield service, shipping, plastic manufacturing, steel and fire protection companies in India through NELP VI bids. However, the answer would lie in the strategy the Government has toward the sectoral development and the current policy indicates desire of the Government to encourage investments by inward investors.
- 2.2.2 As the petroleum sector knows it well, the challenge is not availability of hydrocarbon resources but is that of efficient development of those resources with minimum impact on the environment and the solution lies only in technological development. Therefore, despite availability of domestic capital, we will continue to need to partner with major oil companies or technology strong global NOCs for access to the latest technology.
- 2.2.3 Today, more and more companies are able to conduct their exploration and production in more and more countries. As a result, companies are competing fiercely for the best acreage. There exists an open market for exploration rights, which is good news and bad for countries like ours. The good news is that they can drive a harder bargain with the oil companies over access to acreage. The bad news is that, all things considered, too hard a bargain will drive the companies away to other countries.

3 Summary of Recommendations for NELP VII

3.1 The Summary

- 3.1.1 On behalf of the industry, PetroFed recommends, in summary, the following for incorporation in NELP VII–
- a) **Technical Capability:** A scientific method to technically pre-qualify prospective bidders should be designed with no marks assigned to the Technical Capability criterion (refer para 4.2).
 - b) **Annual Reserve Accretion Sub-criterion:** Government should continue to consider 2P reserves for awarding marks under the sub-criterion of Average Annual Reserve Accretion for last 5 years (refer para 4.3).
 - c) **Fiscal Package:** On bidding pattern for Fiscal Package; some companies advocated Contractor's take on a sliding scale at successively higher investment multiple levels, that being internationally prevalent practice. Other companies were of the view that there should be no such restriction. In either case, there should be no ambiguity leaving the options to bidders to interpret. (refer para 4.4).
 - d) **Past performance:** Such a clause should not be introduced for evaluation (refer para 4.5).
 - e) **Periodicity of NELP rounds:** While companies did not necessarily felt a need to defer the NELP rounds, they qualified their response to mean that the rounds must necessarily be enabled by data, clearances, categorisation of blocks and if the suggestion is accepted the pre-qualification, so as to strategise bids as well as reduce under ground and contract risks for bidders (refer para 4.6).
 - f) **Block categorisation:** Blocks should be categorised considering both geology and geography of a block. Fiscal incentives should be provided with such a risk-based block categorisation i.e. blocks which are difficult to operate on or belong to areas/basins where discoveries have not been reported may be given additional incentives for the additional risk undertaken (refer para 4.7).
 - g) **Size of blocks:** The Government should carve out smaller blocks and for that purpose it may have to acquire or cause to acquire additional seismic data (refer para 4.8).
 - h) **Data adequacy & quality:** The Government should or cause to undertake geological and geo-physical surveys so as to enable bidders make informed decisions thereby motivating more (and bigger) players to participate (refer para 4.9).
 - i) **Access to data relating to adjoining blocks:** No consensus could be arrived at the industry meeting on this issue. While some advocated promotion of free usage of raw non-proprietary data, the others were of the opinion that in order to protect the interests of operators, data should not be shared with prospective bidders till completion of exploration (refer para 4.10).

- j) **Assigning marks to minimum commitment of one exploratory well in Phase II:** The industry is of the view that with an exit option available after Phase-I, there is no merit in assigning any weightage to Phase II (refer para 4.11).
- k) **Mandatory Work Programme:** MWP should be customised for each block based upon the data available for that block. Companies proposing to undertake 3D seismic either on the whole or a part of the Contract Area may be excused from undertaking mandatory work programme on the whole or that part of the block, as the case may be (refer para 4.12).
- l) **Exploration period:** The Government may please look into the possibility of customising the exploration period of individual blocks based in block characteristics. In order to achieve Government's stated objective of accelerated exploration in the country, the Government may allocate extra marks for companies proposing to undertake accelerated exploration on the block (refer para 4.13).
- m) **Fiscal stability provision:** The government should establish a mechanism to review the implications of introduction of such new fiscal burden on the Contractor with a view to invoke the Fiscal Stability clause provided in the PSC (refer para 4.14).
- n) **Income Tax Holiday:** E&P companies should be given the freedom to chose the seven year tax holiday period within a period of a total period of 15 years from the start of commercial operations. The best in any case would be to accord the E&P sector, Infrastructure Status under Section 80 IA of the Income Tax Act, 1961 (refer para 4.15).
- o) **Well-head Value:** Methodology for calculating of crude oil and natural gas at well head should be provided in the PSC (refer para 5.1.1).
- p) **Statutory clearances:** All clearances related to environment, defence, forests etc. should be obtained by DGH before offering blocks for bidding (refer para 4.17.4 and 4.6.5).
- q) **Profit Petroleum in Kind:** In case of natural gas, the Government should take its share of profit petroleum in cash and not in kind (refer para 4.17.5).

4 Analysis of NELP VI & Recommendations for NELP VII

4.1 Objectives of Government of India

4.1.1 Since introduction of New Exploration Licensing Policy (NELP) in 1997, the Government of India has directly or indirectly expressed objectives to be achieved by the Government in the E&P sector, while introducing terms or changes in terms of policy. Following are some of the explicitly stated objectives in various Government documents:

- a) Exploring the hydrocarbon potential of the sedimentary basins in the shortest possible time;
- b) In view of inherent risk of hydrocarbon exploration and associated huge financial investment, opening up of acreages for active exploration by private or JV companies, in addition to efforts of NOCs is necessary;
- c) Achieve energy security by bridging gap between demand and domestic supply by exploring for oil & gas;
- d) To undertake a total appraisal of Indian sedimentary basins for tapping the hydrocarbon potential and to optimize production of crude oil and natural gas in the most efficient manner so as to have greater Reserve Replacement Ratio.
- e) To keep pace with technological advancement and application and be at the technological forefront in the global exploration and production industry.
- f) To achieve as near as zero impact, as possible, on environment.

4.1.2 Thus far, India has relied on improving the award terms and processes based on experiences of past rounds under NELP. It has tried to introduce investor friendliness while maintaining the interests of the nation. Some times, such well-intended changes may not necessarily contributed to achieving the overall objectives. Having recognized the need for much higher exploration investments, India must adopt a scientifically designed regulatory regime rather than such ad-hoc modifications to bidding terms. It now appears necessary that a structured project is taken up, around defining the objectives and then designing, implementing the contractual arrangements and drawing up a regulatory regime.

4.2 Technical capability

Background

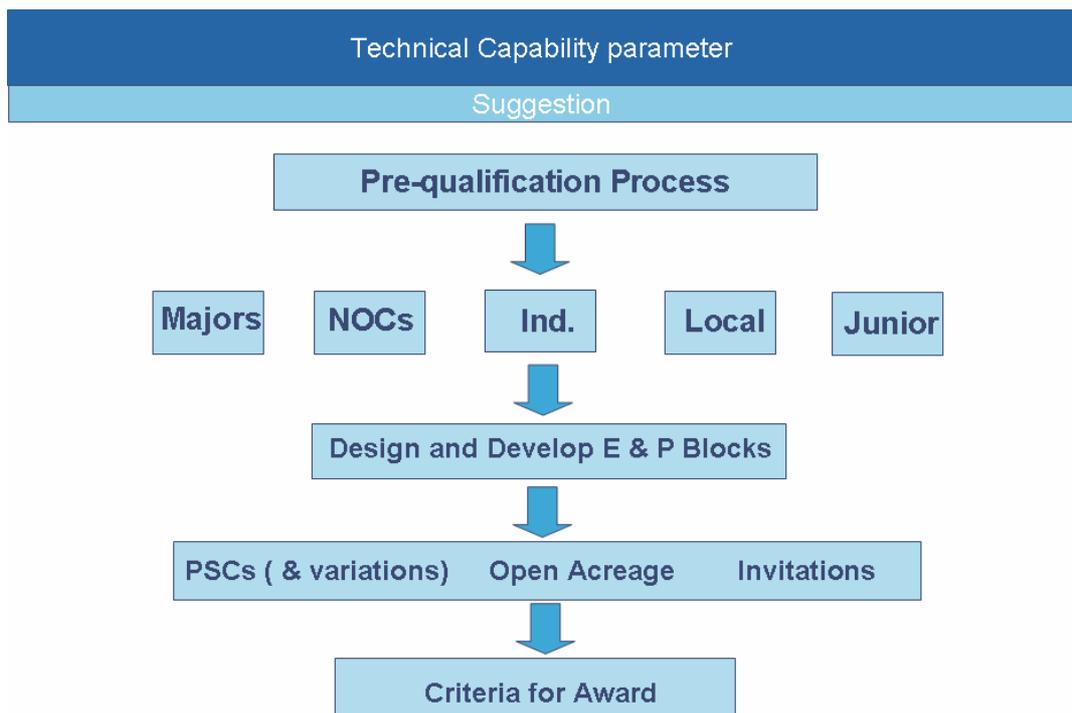
4.2.1 International experience shows that all types of companies whether majors, NOCs, independents or juniors have their role to play in any country's endeavour to explore and develop hydrocarbon resources. One view is that small blocks are best explored by small and medium sized companies who bring fresh ideas and expertise to these blocks. Recent success stories scripted by small but technically competent companies in India such as Cairn Energy is a case in point. Smaller companies also possess the advantage of low overhead costs as compared to the 'biggies'.

4.2.2 DGH contends that the block categorisation under NELP VI was done keeping in mind importance of the role played by each type of E&P company in India’s hydrocarbon resource development. It was assumed that smaller companies would bid for small sized blocks, while the relatively larger companies would focus their attention on the bigger and more challenging blocks such as deepwater and frontier areas. The block sizes therefore varied from a small 32 km² onland block to a 19,226 km² deepwater block. But as is evident from the NELP VI response, even the smallest of the blocks has been bid and won by a very large company. Smaller players, therefore, are finding it difficult to compete for a block with the bigger and established players owing to the marks assigned to technical parameters such as acreage holding, operatorship experience, annual accretion and annual production.

4.2.3 Under the NELP VI BEC, Technical Capability criteria carries a weightage of 25% for onland & shallow-water blocks and 30% for deepwater blocks. Some medium and small sized companies have, therefore, opined that in order to provide a level playing field to technically competent companies, both big and small/medium sized, only the work programme and the fiscal package parameter should be considered for bid evaluation.

Recommendation

4.2.4 Diverse views were expressed in the industry meeting and the industry members seemed to arrive at a consensus on the following recommendation.



- Bidders, as illustrated above, should be technically pre-qualified and no marks should be awarded to Technical Capability criterion. Such a pre-qualification of various types of companies (majors, NOCs, independents, juniors etc.) should be done keeping in mind the target category of blocks, the categories having been designed keeping in mind the investor capabilities and patterns. As and when the NELP round is due or an Open Acreage Licensing EoI is received, the Government should pre-qualify companies for the blocks carved out and assign weights to MWP

and Fiscal Package parameters, as per the objectives laid down. These two parameters would then form the basis for evaluation of bids.

- Two extremes to this suggestion emerged out of the industry discussions. One was that the Government should prescribe the MWP for each block leaving only a single evaluation criterion for award of blocks i.e. Fiscal Package. Second was that the Fiscal Terms should be fixed by the Government for each block and companies should be evaluated based on the MWP commitments.

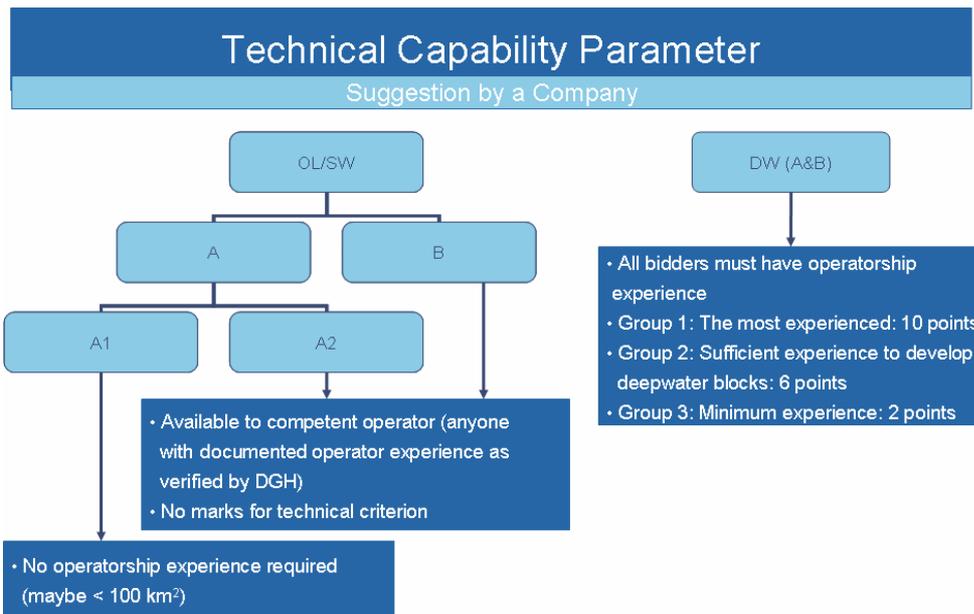
Other Views by Companies Received

4.2.5 Since under NELP VI the Technical Capability is assessed on the strength of the designated operator alone, a company without an operatorship experience does not qualify for bidding as an operator. Therefore companies have suggested that a window should be made available under the NELP award process to allow new companies or companies with no previous operatorship experience to bid as an operator for certain types of blocks (maybe small sized blocks). This argument is based on the premise that exploration is just a part of the E&P value chain of exploration, development and production. It is also known that experts with E&P expertise, experience and technology are available in the market whose services can be hired by the operator-bidder having no previous operatorship experience. Forging partnership with such experts and bidding as a consortium is also possible. Therefore companies with a sound exploration strategy supported by a team of competent and capable E&P experts should be allowed to bid for blocks under NELP VII.

(It may be noted that this concern of companies can also be taken care of by adopting the above recommendation of pre-qualifying companies in a way that companies with no operatorship experience get an opportunity to get qualified and bid for blocks, which the Government considers can be awarded with supported experience, as an operator.)

4.2.6 Set minimum qualifying criteria for acreage holding, operatorship experience, annual production, geological assessment and set most marks for technical capability on an accretion criteria based on finding cost/bbl basis. Real deep water experience and financial strength should remain important criteria for deepwater blocks.

4.2.7 One of the companies suggested the following categorisation so as to qualify companies based on capability merited.



4.2.8 For onland/shallow water blocks having area up to 500 km², technical capability should not be a criterion for bid evaluation.

International Practices

Nigeria

- 4.2.9 All bidders have to enroll in blocks/zones of their interest. Companies provide all required technical, financial and legal information, and apply either as strategic partners, operators, or both, and pay the prescribed fees.
- 4.2.10 Bidders are then qualified and participation interests assigned to strategic partners which is made public in interactive sessions with the bidders. In a parallel session, operators are also qualified in interactive sessions to participate in the commercial bidding.
- 4.2.11 A bidder could qualify as either an operator or non-operator or both. The bidder may qualify as an operator in some zones and a non-operator in others. Operators can be classified into one of the following three categories: Class A operator, Class B operator or Class C operator. Class A operators are those which have been qualified to operate in the in the deep offshore and frontier inland basins. Class B operators are those qualified to operate in the shallow water areas of the Niger Delta, the inland basin and onshore. Class C operators were those qualified to operate the shallow water areas of the Niger Delta and onshore only.
- 4.2.12 Such a pre-qualification process is done in an interactive manner between the bidders and the Bid Committee, involving the qualification of operators and non-operators at the same time and allowing for formation of consortia of bidders. Bidders are permitted to make written requests for clarification. At the end of the pre-qualification process the Bid Committee publishes a full list of all qualified operators and non-operators and, in the case of non-operators, the Blocks in which they were entitled to participate and their permitted percentage participation.

Norway

- 4.2.13 Before an organization can enter the Norwegian E&P sector, it must be "qualified" by the Ministry of Petroleum and Energy. This system has been set up to determine the suitability of new players' sustainability on the Norwegian Continental Shelf (NCS), with the paramount benchmark being the "ability to contribute to the creation of value." Firms need to demonstrate a minimum level of competence in all relevant fields in order to evaluate, understand, and follow up the operators' activities on the production license. While an organization may outsource many of these functions, there are stringent requirements in order to demonstrate sufficient in-house ability and expertise regarding health, environment, and safety. These elements are in conjunction with the necessary financial requirements to satisfy any commitments assumed as licensees in any license.
- 4.2.14 The Norwegian authorities have a well established procedure for pre-qualifying licensees and operators and is intended to enable companies to assess their ability to participate effectively in operations on the NCS before they invest resources on the evaluation of specific business opportunities. The procedure is also used if a licensee who is a participant wishes to qualify as an operator. The pre-qualification is an evaluation of the competence and capacity of the company with respect to subsurface, production and development technologies and HSE. The Petroleum Directorate evaluates the company on issues relating to resource management, and the Petroleum Safety Authority evaluates those relating to HSE.
- 4.2.15 A company seeking pre-qualification makes initial contact with the Ministry. The Ministry subsequently notifies the Petroleum Directorate and the Ministry of Labour and Social Affairs ("MLSA") who, in turn, notifies the Petroleum Safety Authority "PSA"). The Petroleum Directorate and the PSA together co-ordinate the process with the company. At the completion of the evaluation of the company the Petroleum Directorate and the PSA report to the Ministry and the MLSA. The Ministry evaluates the company's financial position and issues the formal pre-qualification.
- 4.2.16 The key requirement for new licensees is that they are able to contribute to the creation of value on the Continental Shelf. The licensees' expertise need not be equally good in all relevant technical fields, but they must be able to help create value through their own special expertise. Participants must possess a minimum level of expertise in all relevant fields in order to be able to evaluate, understand and follow up the activities of the operator in the production licence. The participants must also have sufficient in-house capacity and expertise to satisfy the prevailing requirements with regard to health, environment and safety (HSE). Operators must have sufficient resources and personnel to manage and carry out relevant operations and activities in accordance with prevailing regulations. In addition, the company must document its ability to meet financial requirements for the activities that are planned and expected.

Brazil

- 4.2.17 In order to participate in Brazil Round, a company must be individually qualified by submitting certain documents (expression of interest, technical, legal and financial qualification) and paying a participation fee. The technical qualification of the companies is based on their respective demonstrated experience in oil and gas exploration and production activities. A Company may seek technical qualification either as:
- **Non-Operator** - For Companies that require qualification as a Non-Operator, it is necessary for them to provide to the Government an overview of their activities in their primary business(es), and the relationship of the applicant Company to its parent company/group.

- **Operator** - The requested qualification should be clearly stated in the Expression of Interest, bearing in mind that qualification as an Operator is required in order to bid on a block without forming consortium. Conversely, a Company qualified as a Non-Operator may participate in Brasil Round in a consortium that has at least one company qualified as Operator.

4.2.18 Companies that seek qualification as an Operator should present a technical summary with full information supporting their operating capability. This summary should include information that demonstrate previous experience in:

- E&P operations in onshore basins, shallow water and deepwater basins;
- Volume of production in barrels of oil equivalent;
- E&P operations in adverse environments;
- Experience, in number of years, in production;
- Experience in the treatment of environmental questions, HSE certification and outsourcing of HSE certified companies.

4.2.19 Companies that are not in the exploration and production business, but want be qualified as Operator B or C, should submit a resume of the technical crew with a curriculum vitae of the professionals, their relation with the company and their responsibilities in the project.

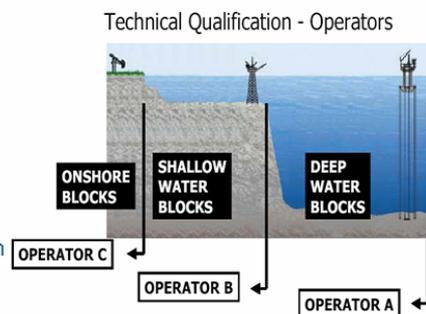
4.2.20 Companies requesting to be qualified as Operators will be classified as the table below:

Operator Qualification	Operation allowed Areas
A	All blocks
B	Onshore and shallow water blocks
C	Onshore blocks

Brazil – Qualification of companies as operator.

- **Categorisation:**

- Companies seeking qualification as an Operator present technical summary with full information supporting their operating capability.
- Companies not in E&P business but want to be qualified as Operator B or C, should submit a resume of the technical crew with a CV of professionals, their relation with the company and their responsibilities in the project.



Operator Qualification	Operation allowed Areas
A	All blocks
B	Onshore and shallow water blocks
C	Onshore blocks

4.3 Average Annual Reserve Accretion Sub-criterion

Background

- 4.3.1 DGH has suggested some changes/modifications in the NELP VI BEC for the purpose of incorporation in NELP VII. One such modification suggested by DGH within the Technical Capability criterion was to change the Average Annual Accretion of Proved and Probable (2P) reserves in the last five years to only 1P (Proved) reserve duly certified by a one of the recognised agencies authorised by DGH. The DGH is of the opinion that it is difficult to get authentic 2P reserve estimates. Also, the total weight assigned to this sub-criterion within the Technical Capability criterion is proposed to be increased from the current 27 percent to 40 percent in NELP VII. Relative marking for this sub-criterion is proposed to be retained.

Recommendation for NELP VII

- 4.3.2 Companies have reacted strongly and unanimously against such a proposed modification. Industry is of the opinion that 2P reserves are capable of being authenticated by reserve auditors and valuers as there in an industry standard definition of 2P reserves. Companies also contend that for other purposes such sale/purchase of reserves, Development Plans, financing of projects etc. 2P reserves are considered. Also for large companies it will be extremely time consuming and expensive to obtain a 1P reserve certification for all its assets.
- 4.3.3 Companies also strongly felt that for the reason of one odd case of anomalous/erratic bids in the last round, the basis need not be changed drastically.
- 4.3.4 Given that the relative marking for this sub-criterion is proposed to be retained and the weightage is proposed to be significantly increased for NELP VII, the smaller players would suffer at the hands of large and established companies.

4.4 Fiscal package

Background

- 4.4.1 A transparent and objective block award process is showcased by the Government as one of the major attractions of India's current E&P licensing policy. Successive NELP rounds have witnessed the evolution of an objective bid evaluation criteria which is disclosed to the bidders before bid submission. For the first time under NELP VI assumptions used by DGH to calculate 'Government take' such as annual production under different scenarios, oil/gas price scenarios, exploration and development cost etc. were disclosed to bidders before bid submission. Armed with these assumptions some bidders have adopted a different bidding strategy for the Fiscal Package. These bidders have quoted significantly low Government share of profit petroleum at higher tranches of Pre-Tax Investment Multiples (PTIM). The NIO (page 18, point no.11) says that, "*Sharing of profit petroleum at various tranches shall be bid, based on a sliding scale tied to pre-tax multiples of investment achieved and shall be specified in the contract*".
- 4.4.2 DGH is of the opinion that the profit share percentage to be shared between the Government and the contractor should be on a rising scale in favour of the Government, as has been the case in all the 110 contracts signed under NELP, barring a few cases where contractor's profit share has been static at higher PTIM tranches.

- 4.4.3 The bidders, however, argued that it was perfectly valid to bid on a 'sliding scale' of profit petroleum for the Government since the NIO does not specify that the sliding scale should be with regard to the bidder alone. In all such 'erratic bids', as described by DGH, the bidder has emerged as the highest ranked bidder based on the NPV of the Government take. The ECS, however, opined that since the bidding was through a transparent mechanism and the bids had to conform to the rules to qualify, it was perhaps not correct to re-negotiate bids with the highest ranked bidder. ECS also added that falling profit share of the Government may not be outrightly rejected, particularly if the Government NPV offered by such bidders is the highest among all bidders.
- 4.4.4 Some companies have represented to the Government that such a practice is not in accordance with logic and the worldwide industry practice and is also against the best interest of India both in the case of small and big/giant discoveries. In case of a small discovery, too low a profit share might render a small discovery economically unattractive for the contractor which might delay or impair an effective development of the hydrocarbon resource. In case of a very profitable giant discovery, an unfairly low profit share will be allocated to the Government.
- 4.4.5 Some industry members also strongly felt that revenue maximisation should not necessarily be the motive of the Government while awarding blocks for exploration which is currently reflected in the highest weightage being assigned to the Fiscal Package criterion. Companies opine that, given the fact that hydrocarbon import results in drain of country's foreign exchange, India stands to benefit in any case consequent to domestic hydrocarbon discovery.

Recommendation for NELP VII

- 4.4.6 No consensus could be reached on this issue. Some companies desired that we must maintain sliding (reducing) scale of the 'Contractor's take' since this is an internationally accepted practice. Some others felt that the scale should not be stipulated as climbing or sliding; NPV based bid evaluation would be the best approach. Some companies also advocated stipulated and fixed profit share, albeit they can vary for various blocks, facilitating simplicity in evaluation and removing the speculative element. Companies, however, acknowledged that it would be challenging for the Government to decide on these weightages.
- 4.4.7 Notwithstanding, a strong unanimous view emerged that the Government must stipulate an unambiguous model.

Other Views by Companies

- 4.4.8 Biddable parameters should be so designed that they do not create an advantage for Government owned entities (PSUs) versus the privately held companies.
- 4.4.9 Fix cost recovery, retain the existing system of profit share but limit the profit share to Gol for which points are awarded.
- 4.4.10 For fiscal package if investment multiple concept is used then increase in Gol share in the higher trenches should be in 10% differential. The cost recovery should also have a cap.
- 4.4.11 The current NPV-model based evaluation used in NELP is open to interpretation by the bidders in terms of what type of hydrocarbon may potentially be present. This may

penalize bidders whose economics is based on a gas rather than an oil model. This ambiguity needs to be removed, so that bid economics are comparable.

4.5 Past performance

Background

- 4.5.1 As per the NIO, “Government may also take into account the past performance of the bidding companies including the track record of the companies or the consortium in respect of court cases against it or any other basis and on this consideration or any other consideration, at the sole discretion of the Government, it may accept or reject any or all bids”. As per the BEC, “Past performance of a company shall be kept in view while evaluating the bids”.
- 4.5.2 Although both NIO and BEC contain the past performance clause, this clause was never invoked by the Government in the previous five bidding rounds under NELP. For the first time under NELP VI, DGH relied on this clause while recommending not to award 12 deepwater blocks to the company which emerged as the highest bidder, owing to its past performance in similar type of blocks. ECS opined that in the absence of a definition and an objective criterion of ‘Past performance’ in the NIO/BEC, it would not be proper to disqualify the first ranked bidder.
- 4.5.3 DGH had also invoked the past performance clause in the case of 4 onland blocks wherein the company which had relinquished those blocks and also had emerged as the highest ranked bidder. In this case as well, the ECS awarded the blocks to the highest ranked bidder.
- 4.5.4 DGH has, therefore, proposed to incorporate in NELP VII an objective criteria for rewarding good past performance and taking into account any bad performance.

Recommendation for NELP VII

- 4.5.5 Companies are of an unanimous view that incorporating such a criterion will not be free of subjectivity or will spawn another set of contentious issues for the next round. Therefore, past performance including in the manner as proposed by DGH for NELP VII, should not be considered for evaluation. Industry is of the view that strict enforcement of MPSC provisions relating to recovery of money’s worth of the incomplete MWP and allowing extensions only to cases meriting such relaxation would take care of Government’s concern of considering past performance while evaluating bids.
- 4.5.6 Any non-performance contractor is already dealt with in accordance with the PSC. Rewarding or penalising the contractor in any future bids would not only be unreasonable but subjective, since the non-performance could be due to attributed to valid reasons as also would that be only a perception of the Government against which the contractor may be intending to appeal or may have already appealed.
- 4.5.7 The proposed provision also becomes subjective because some of the competing bidders may not have participated in earlier NELP rounds to establish any non-performance by them. Even if they have, the allowed time for performance may yet not have been completed. Applying any global non-performance by companies as a norm for evaluation also would suffer similar subjective treatment due to non-equal grounds.

- 4.5.8 On the issue of not awarding a block already relinquished by that bidder for a given period after such relinquishment, the companies are of the view that such a provision is not in the interest of bidders who were required to relinquish 25% (mandatory) of the block area under previous NELP rounds and would be interested in revisiting those relinquished areas. Practical examples were cited by companies as to how it was impractical for the companies to undertake WP due to time and service resources constraints and how the companies may be able to take up the commitment under changed scenario.

4.6 Periodicity of NELP rounds

Background

- 4.6.1 The objective of undertaking exploration activities in the country is to explore oil and gas and increase the hydrocarbon resource base of the country. Parameters like number of blocks offered and number of bids received may not truly reflect the success of a country's E&P licensing policy.
- 4.6.2 Also, Government may need to assess periodicity of NELP rounds in general and timing of NELP VII in specific, should factors/resources like data, clearances, scientific method to categorise blocks, pre-qualification of bidders, factoring in learning of earlier rounds and availability of services like rigs for operators, prove to be constrained.
- 4.6.3 Companies discussed these constraints one by one in the industry meeting organised by PetroFed on February 26, 2007. On data availability companies were of the view that data for deepwater areas was not sufficient. Large grid size data was made available to bidders for some blocks which does not lend itself to confident assessment of hydrocarbon potential. Companies expressed their dissatisfaction over the time taken in obtaining environmental clearances which takes anywhere between 7 to 13 months.

Recommendation for NELP VII

- 4.6.4 While companies did not specifically agree with necessity to defer the NELP rounds, since in their opinion, investors would be ready to put in bids any time, they qualified their response to mean that the rounds must necessarily be enabled by data, clearances, categorisation of blocks and if the suggestion is accepted the pre-qualification, so as to strategise bids as well as reduce under ground and contract risks for bidders.
- 4.6.5 On a connected subject, companies proposed that blocks should be put on offer only after obtaining all requisite clearances, including all possible environmental clearances, so that the awardees are saved of the unnecessary delays and uncertainties in obtaining such clearances.
- 4.6.6 Alternatively, the Central Government should enter into a Memorandum of Agreement (MoU) with the State Governments in order to avoid any such delay.

Other Views by Companies

- 4.6.7 NELP round should be stopped and blocks should be offered on open acreage system.

4.7 Categorisation of Blocks

Background

- 4.7.1 Gol has categorised the Indian sedimentary basins into four categories based on their perceived/demonstrated prospectivity. Under NELP VI, the Government introduced the system of categorising blocks into Type A and Type B blocks. Based on such a categorisation the Government has accordingly assigned greater weightage to the MWP commitment for B Category block as compared to the Category A blocks. Technical Capability criterion carries same weightage for both A & B category blocks with lower weightage to Fiscal Package for Category B blocks.
- 4.7.2 Learning from the experience gained from NELP V as regards the controversy surrounding declaration of certain blocks as frontier area blocks, the Government identified the blocks upfront as frontier area blocks in the NIO. The Government provided the definition of frontier area blocks in the Model Production Sharing Contract (MPSC). Such a definition if applied to individual blocks does not give uniform results. For example, despite being logistically and technically difficult to access with scanty data, some deepwater blocks were not been categorised as frontier area blocks.

Recommendation for NELP VII

- 4.7.3 Block categorisation should be done considering both geology and geography of a block.
- 4.7.4 Concept of Frontier area blocks should be extended to cover blocks with scanty data.
- 4.7.5 Fiscal incentives should be provided with such a risk-based block categorisation i.e. blocks which are difficult to operate on or belong to areas/basins where discoveries have not been reported may be given additional incentives for the additional risk undertaken.

Other Views by Companies

- 4.7.6 The Government should continue with categorisation of the offered blocks in Type 'A' and Type 'B', as done in NELP-VI, based on whether the block falls in frontier area/deepwater or not. However, the Model PSC for the frontier area/deepwater blocks should be made more attractive.
- 4.7.7 Categorization of blocks into onland, shallow water, deepwater, frontier areas and blocks below 500 sq km.

PetroFed's NELP VI Recommendation

- 4.7.8 The following block categorisation was suggested by the industry which was forwarded by PetroFed as a recommendation for NELP VI:
- a) Blocks from Cat I Basins (proved areas),
 - b) Blocks from mid-prospective areas (mainly Cat II & III Areas),
 - c) Frontier areas (other than Deep Waters),
 - d) Deep Water areas,
 - e) Blocks from Cat IV areas (unknown prospectivity areas),

Based on the above categorization of blocks, the PSC terms and conditions can be customised for each type of block to attract global investments. Companies willing to participate in Frontier area blocks or Cat IV blocks can be given some added incentives.

International Practices

4.7.9 Where Governments have been trying to shift the industry’s focus toward “frontier” acreage, they have often needed to offer easier terms than they apply in other parts of their jurisdiction. The UK and Norway make larger awards for frontier acreage, the United States has a longer license period and royalty holidays in deep water, Indonesian “frontier terms” include a higher profit share, etc. In addition, once the frontier starts to be attractive, because of the industry’s interest in its prospects, the terms for new licenses there tend to stiffen up quite quickly.

United Kingdom

4.7.10 Certain areas of the UK Continental Shelf are particularly challenging areas to operate in. Recognising this, the DTI offers Production Licences on ‘frontier’ terms intended to reflect these conditions. The objective is to allow companies to screen large areas for a brief period in order to identify a wider range of prospects.

4.7.11 A Frontier Licence is unusual in that what would be the four year Initial Term of a traditional Licence is split into two periods of two years each, constituting the Initial Term and the Second term of the Licence. The first two Terms together last for six years (2+4) and is the period in which the Work Programme must be completed if the Licence is to continue further. There is no requirement to have completed the Work Programme, or any part of it, during the Initial Term. The Work Programme will contain at least a drill-or-drop commitment.

4.7.12 It is possible to view the two-year Initial Term as an additional term designed for preliminary evaluation. The rental rates in these two years are low and do not create an undue financial burden even when the License area is extensive. However, at the end of the Initial Term, seventy five percent of the Licence area must be relinquished and

Block categorisation - NELP VI recommendations by PetroFed

- Suggested categorisation:
 - Cat I (proved areas)
 - Cat II & III (mid-prospective areas)
 - Frontier areas (other than deepwater)
 - Deepwater areas
 - Cat IV (unknown prospectivity)

Based on the above block categorisation PSC terms & conditions can be tailor-made



rentals increase to the levels of a traditional Licence. At the end of the Second Term, which falls four years later (i.e. when the Licence is six years old), the Work Programme must have been completed and there is another mandatory relinquishment, this time of fifty percent of the License area at the time, leaving one eighth of the original licensed area.

- 4.7.13 The DTI recognises that two years is by no means a lengthy period even for preliminary evaluation work and is prepared to be flexible to deal with exceptional circumstances that may arise. Thus it may, at its discretion, consider requests to grant extra time on the initial term where, for example, whether delays seismic acquisition scheduled for the first year of the programme or accept only a fifty percent relinquishment where demonstrable prospectivity covers more than twenty five percent of the Licence area and would be prejudiced by the normal seventy five percent relinquishment).

Number of Blocks					
	Brasil Round 1 (1999)	Brasil Round 2 (2000)	Brasil Round 3 (2001)	Brasil Round 4 (2002)	Brasil Round 5 (2003)*
Offered	27	23	53	54	908
Awarded	12	21	34	21	101

* Larger number due to the changes in the bidding methodology and reduction in the average block size

4.8 Size of blocks

Background

- 4.8.1 NELP VI block size has varied from a small 32 km² onland block to the largest offshore block measuring 19,226 km². Companies are of the view that a well planned strategy to size blocks in the subsequent bidding rounds covering all the 26 sedimentary basins may be adopted and the criteria for determining block sizes should be based on parameters like geology, availability of data, target bidders' company size, investment needed, compromise on locking up a large block with an operator.
- 4.8.2 We may learn from the experience of Brazil where the Government significantly increased the number of blocks on offer by reducing the block sizes. Brazil announced its Fourth Round of bidding in 2002 offering 54 blocks. In the next round announced in 2003, the number of blocks put on offer was significantly increased to 908 blocks. In the UK also blocks of about 250 km² have been used for licensing purposes.
- 4.8.3 One company commented that in order to achieve Government's stated objective of accelerated exploration of the country, there is a need of critical mass of operators to develop country's hydrocarbon resources. Such a need can be fulfilled by offering greater number of blocks by reducing the size of the blocks.

Recommendation for NELP VII

- 4.8.4 The Government should carve out smaller blocks and for that purpose it may have to acquire or cause to acquire additional seismic data.

4.9 Data adequacy & quality

Background

- 4.9.1 Before announcing a bidding round under NELP, it is reasonable to expect that all blocks are supported with adequate and good quality data. Such data gathering will also help the Government in discovering the intrinsic worth of the asset(s) which it will have to part with once awarded to the successful bidder. Companies have, however, commented that some deepwater blocks were offered under NELP VI despite scanty or poor data availability. Data pertaining to some basins was also not of good quality.
- 4.9.2 Companies are of the view that the Government should invest in acquiring data of the blocks put on offer. DGH has undertaken speculative surveys to acquire 2D seismic data of deepwater areas, but such efforts should be intensified and data intensity of the sedimentary basins of India should be improved. Also from the point of view of introducing OALP the Government needs to establish a Data Repository which can be accessed by companies for carving out acreages of their interest.
- 4.9.3 Some of the large oil companies maintain that any oil & gas major would first like to assess the prospectivity of a block for which adequate and good quality data is required. Since many of the blocks offered by the Indian Government were not supported with adequate data, the some large IOCs and NOCs chose not to bid for these blocks. Such companies compare risks in comparison to numerous other E&P investment opportunities available globally and tend not to participate in India for this specific data inadequacy reason.
- 4.9.4 From a different perspective, deriving maximum and true value from the blocks by the Government, is a parameter the Government may like to monitor to decide success of a bidding round.

Recommendation for NELP VII

- 4.9.5 Hence, the Government should or cause to undertake geological and geo-physical surveys.

PetroFed NELP VI Recommendation

- 4.9.6 Following NELP VI recommendations were made by PetroFed on behalf of the industry:
- With respect to generating interest of international investors, it may prove to be rewarding to carry out surveys, make data available and provide that to investors before bidding.
 - In order to drastically improve the current poor geo-seismic data availability condition, it is now necessary to introduce policy enabling concurrent award contracts or licences of the nature of Non-Exclusive Speculative Surveys (NESS) or Technical Evaluation Contracts (TEC) or Promote Licence (PL). These models are innovative in nature since they do not cost the Government, reduce risk of Government and also help in increasing the availability of data and thereby provide ways of promoting data acquisition in the country.
 - Further, to enable pro-active evaluation of areas by companies, the Data Repository needs to be created and made accessible online.

International Practices

Norway

- 4.9.7 An important element in the efficiency with which bid rounds are conducted, and the ownership of existing licences transferred or adjusted, is provided by effective and easy access to data and information on plays, discoveries and fields. From the outset of petroleum operations on the Continental Shelf Norwegian authorities have always followed a policy of giving interested parties as much free access to data as possible.
- 4.9.8 When petroleum exploration in Norway started, the Norwegian Petroleum Act, and subsequently the Resource Management Regulations, required the Petroleum Directorate to be supplied with one copy of all resource data, e.g. seismic data, results from wells, logs and interpretations. Half of each core (longitudinal section) from exploration wells, a representative sample from development wells, cuttings taken at regular intervals and oil samples must also be sent to the Petroleum Directorate. All data can be easily retrieved and it is claimed that time spent on finding data and facts is significantly reduced compared to other petroleum provinces in the world. The companies that supply the Petroleum Directorate with data, and those that use the data, are mainly the holders of licences. The data are owned by the companies that have acquired them. The rights of both owners and users of data can be purchased or traded. Owners may make data public at any time.
- 4.9.9 All seismic data which the Petroleum Directorate receives from the Norwegian Continental Shelf are now available in the Diskos database. The Diskos project is a joint initiative with the petroleum industry to store all seismic data, well data and monthly production data from the Norwegian Continental Shelf in a single database. The Petroleum Directorate and the majority of the oil companies are members of Diskos. Member of Diskos have direct online access to the database. Non-members can purchase data on media (tape cassettes). There is strict control of all access rights to data in the database.
- 4.9.10 The Petroleum Directorate uses the data when performing its advisory and regulatory role on the Continental Shelf. In addition, the aim is to ensure that data from the Continental Shelf are made available to the industry and are stored safely for the future.
- 4.9.11 Data provided to the Petroleum Directorate are kept confidential by the authorities for two, five or ten years depending on their specific nature: two years for raw data (non-interpreted) from production licences, ten years for data that are “commercially available” and five years for other data.
- 4.9.12 There is a confidentiality period of 20 years for all interpreted data. Digital data from relinquished areas are no longer confidential. Raw data from wells, together with Petroleum Directorate’s interpretations of the geological formations, are published on the Petroleum Directorate’s “Fact Pages” and can be downloaded free of charge. Data such as well logs and seismic are made available by the Petroleum Directorate through the Diskos database. Interpreted data, such as final well reports, are scanned and made available on the Petroleum Directorate fact pages when the period of confidentiality has elapsed. The Fact Pages contain more description of the types and volumes of data, publications and how to proceed to access the data if they are not available on the Petroleum Directorate web site.

4.10 **Access to additional data relating to adjoining block**

Background

- 4.10.1 As is well known and understood that geology does not stop at respective block boundaries. According to the MPSC, title to all data, raw or processed, acquired by the Contractor of a block vests with the Government. The Government also has the power to disclose to prospective bidders data relating to the block adjoining the block on offer. Under NELP VI the MPSC provides that the Government has the right to disclose and freely use all data relating to the block, except data of proprietary nature, on or after 3 years from acquisition of such data.
- 4.10.2 Companies have expressed that a bidder will be in a better position to build geological models and hence assess the hydrocarbon potential of a block on offer if raw (unprocessed data) relating to adjoining block is made available to him. Some other companies have contested such an argument and have insisted that data relating to a block should not be made public before the end of the exploration phase i.e. 7 or 8 years as the case may be.

Recommendation for NELP VII

- 4.10.3 No consensus could be arrived at the industry meeting on this issue. While some advocated promotion of free usage of raw non-proprietary data, the others were of the opinion that in order to protect the interests of operators no data should be shared with prospective bidders.

PetroFed NELP VI Recommendation

- 4.10.4 Non-proprietary data generated by operators must be disclosed by the Government after 5 years from its acquisition.

4.11 **Minimum commitment of one exploratory well in Phase-II**

Background

- 4.11.1 The NIO, under the Minimum Work Obligation clause, specifies that a bidder has to commit to at least one exploratory well in Phase-II. This provision was incorporated in the NIO as the bidder was given an option of not drilling an exploratory well during the entire Phase I. The bidder could, therefore, win a block with a MWP commitment of covering the block with seismic studies only. Therefore, in order get the Contractor to drill at least one well in the block, the provision for one mandatory exploration well in Phase II was inserted.
- 4.11.2 Under NELP VI, however, the number of exploration period has been reduced from three to two and also the weightage assigned to Phase II has been discontinued. Thus no marks have been assigned to this commitment of the bidder under Phase II. Moreover, the Government has not specified the depth to which such an exploratory well has to be drilled leaving it to the good judgement of the bidders. This may lead to bidders proposing to drill wells to illogical and technically unjustifiable depths just for the sake of complying with the requirements.

Recommendation for NELP VII

- 4.11.3 The industry is of the view that with an exit option available after Phase-I, there is no merit in assigning any weightage to Phase II.
- 4.11.4 Another view that came up, although not all companies could evaluate and express opinion, was that instead of two exploration phases, the Government may explore the option of introducing only one exploration phase. This is owing to the fact that Phase-II has not much of relevance attached as regards WP. Companies however recognise the importance of option made available for surrendering after Phase-I.

4.12 **Mandatory Work Programme**

Background

- 4.12.1 The intent of the Government to introduce the mandatory work programme was to improve the seismic coverage of the blocks on offer. While the basis for deciding the grid size for the mandatory work programme has not been stated in the NIO, it can be observed that there is very little variation in mandatory work programme across different blocks in the same basin.

Recommendation for NELP VII

- 4.12.2 Mandatory Work Programme should be customised for each block based upon the data available for that block.
- 4.12.3 The NIO prescribes the 2D seismic mandatory work programme in grids of different sizes. The mandatory work programme should be prescribed in terms of Line km instead of grid size or both in grid size and Line km.
- 4.12.4 Another suggestion received was that the bidder may be given the option to acquire the mandatory 2D seismic data in any part of the block area.
- 4.12.5 Companies proposing to undertake 3D seismic either on the whole or a part of the Contract Area may be excused from undertaking mandatory work programme on the whole or that part of the block, as the case may be.

4.13 **Exploration period**

Background

- 4.13.1 Exploration period may be designed based on the characteristics of individual blocks. Block size could be one of the parameters on which the exploration period of an individual block could be decided. The block size offered under NELP VI varied from the largest size block of 19,226 km² to the smallest block of 32 km². Blocks with different characteristics such as size, location, basin geology etc. may be allowed different exploration periods.
- 4.13.2 This would justify longer exploration period for large, logistically and technically difficult blocks and shorter exploration period for small and easy to operate on blocks. Thus, some relatively easier to operate blocks may be relinquished by companies earlier than the stipulated 7 or 8 years under NELP VI and may be reoffered by the Government under subsequent rounds.

Recommendation for NELP VII

- 4.13.3 The Government may please look into the possibility of customising the exploration period of individual blocks based in block characteristics.
- 4.13.4 In order to achieve Government's stated objective of accelerated exploration in the country, the Government may allocate extra marks for companies proposing to undertake accelerated exploration on the block.

Other Views by Companies

- 4.13.5 The Government should continue with the present system of 7 years' exploration period for non-frontier area/deepwater blocks and 8 years' exploration period for frontier area/deepwater blocks.

4.14 Fiscal Stability Provision in the Contract

Background

- 4.14.1 The 'Fiscal Stability' assurance by Gol provides comfort to oil companies and the feedback of companies after road shows indicates that this is a very attractive assurance. A clause in MPSC assures revision of contract terms to protect the economic benefit both to the company and the Indian Government, in case of change in law and tax.
- 4.14.2 E&P companies have desired that the economic benefit to the companies need to be protected rather than to the Government, given the high risk nature of business and benefit accruing to the nation in case of any domestic hydrocarbon discovery.
- 4.14.3 Further, the E&P sector is demanding additional fiscal incentives over and above those being available presently. Despite fiscal stability assurance, over the years, the Gol has introduced and implemented various legislations which have resulted directly or indirectly into fiscal burden on the E&P companies. To illustrate, some of the recent additional levies announced by the Ministry of Finance include levy of Education Cess, increase in Service Tax rates and coverage, Fringe Benefit Tax, etc.
- 4.14.4 This is being viewed by E&P companies as a continuing reason of loss of confidence of the investors in the NELP terms.

Recommendation for NELP VII

- 4.14.5 The government should establish a mechanism to review the implications of introduction of such new fiscal burden on the Contractor with a view to invoke the Fiscal Stability clause provided in the MPSC.

4.15 Fiscal incentives – Tax holiday

Background

- 4.15.1 One of the fiscal incentives extended to the E&P companies bidding for exploratory blocks under NELP is the provision of a tax holiday for a period of seven years from the commencement of commercial production. E&P companies, however, are of the

opinion that during the initial seven years period, when tax holiday is available, they have large expenditure to set off and hence the actual benefit of the tax holiday does not flow to them. Freedom to choose the seven year tax holiday period from the initial period of fifteen years does not exist as is available for other infrastructure projects.

- 4.15.2 Notwithstanding the fact that an income tax holiday period is available to an E&P company, it is subject to tax in India under the Minimum Alternate Tax ('MAT') regime.

Recommendation for NELP VII

- 4.15.3 E&P companies should be given the freedom to choose the seven year tax holiday period within a period of a total period of 15 years from the start of commercial operations.
- 4.15.4 Alternatively, the E&P sector should be accorded Infrastructure Status under Section 80 IA of the Income Tax Act, 1961.

4.16 New contracting methodology

- 4.16.1 No suggestions were received from companies on any new contracting methodology that could be adopted by India.

PetroFed NELP VI Recommendation

- 4.16.2 NELP carries on activities by investor from the preliminary survey up to the level of full-fledged production ending in relinquishment at the end of life of the producing asset. If the objective of the Government is to attract exploration investment alone, apart from NELP, the Government may like to consider deploying the following models as well.
- 4.16.3 Model like "Technical Evaluation Contract" is limited to exploration activities in larger areas aimed to identify specific areas for subsequent E&P contract; it can include up to stratigraphic wells and it has a preferential right to subscribe an E&P contract.
- 4.16.4 Similarly, the "Promote Licence" (deployed in the UK) designed to encourage smaller firms to participate in offshore exploration offers a sharply reduced licence fee for two years. This period is provided to assess the licence area and to promote the asset to potential investors which, the licensee hopes, will agree to finance the cost of drilling work.

4.17 Other Views by Companies

- 4.17.1 It may be considered that bidders should be penalised (i.e. have points deducted) for submission of work programmes which are clearly excessive or not practical or not achievable within the allotted time-frame for the exploration period. The work programme should be judged against activities that are appropriate to the prospectivity and terrain prevailing in the block, with additional points for new or innovative proven techniques.
- 4.17.2 Points should be awarded on basis of ratio of Indian/Foreign partnership. For some areas e.g. deep water, frontier or difficult technology e.g. thrust belt we would suggest a compulsory minimum foreign partnership percentage.

- 4.17.3 Methodology for calculating Well-head Value of crude oil and natural gas should be provided in the PSC.
- 4.17.4 All statutory clearances related to environment, defence, forests etc. should be obtained by DGH before offering blocks for bidding.
- 4.17.5 In case of natural gas, the Government should demand its share of profit petroleum in cash and not in kind.
- 4.17.6 The Contractor's cost recovery should be valid from the date of signing of the PSC.
- 4.17.7 A realistic and biddable work programme should be allowed for cost recovery purpose.

5 Score card: Industry recommendations on NELP VI post review of NELP V

5.1 Review of NELP V leading to recommendations for NELP VI

5.1.1 In 2005, PetroFed in knowledge partnership with PwC, had released a publication titled “Review of E&P Licensing Policy” which covered review of India’s then existing licensing policy for award of acreages for exploration and production of hydrocarbons in India. The publication, based on responses of E&P companies and a study of the prevalent international practices, recommended certain changes/modifications to NELP V leading to formulation of NELP VI. Some of those recommendations, in spirit if not in the same form, were considered by MoPNG while announcing the Sixth Round of Bidding under NELP. Score card of these recommendations is provided below:

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>1.4 The Way Ahead for India –Recommendations</p> <p>1.4.1 From the comments received from E&P companies and the analysis carried out concurrently, it is recommended that:</p>	
<p>a) The NELP regime needs to continue at least for the short term, specially taking into consideration the time involved in designing, enacting and implementing any radically different licensing regime. Some crucial amendments or improvements are, however, necessary. This regime may also co-exist with any other licensing policy.</p>	<p>PetroFed’s suggestion has been accepted. It is learnt that the GoI is seriously progressing towards OALP regime as well.</p>
<p>b) In order to drastically improve the poor availability of geo-seismic data, it is now necessary to concurrently award contracts or licences for Non-Exclusive Speculative Surveys (NESS), Technical Evaluation Contracts (TEC) or Promote Licence (PL) (details in para 1.6).</p>	<p>Not a part of NELP. It is, however, learnt from public announcements that speculative surveys have been undertaken by DGH.</p>
<p>c) It is imperative that a National Data Repository (NDR) be created under MoPNG (DGH) to be the repository of all data generated in India. Further, to enable pro-active evaluation of areas by companies, this NDR needs to be accessible online (details in para 1.8).</p>	<p>Not a part of NELP. It is, however, learnt from public announcements that NDR would be set-up.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
	PetroFed suggestion therefore is in line with the action in hand.
d) Acknowledging the fact that it would take some time to prepare for offering blocks on an effective 'open acreage' system, it would be necessary to draw up a clear plan of action towards reaching the open acreage policy stage. Such a plan would encourage investors to evaluate acreages proactively with sensitivity toward suitability of areas for their risk taking ability, technological suit, business strategy and other conveniences (details in para 1.9).	Not expected to be part of NELP. OALP, however, is learnt to be under serious consideration. PetroFed is of the opinion that a time bound actions needs to be taken to roll out OALP.
e) Different approaches need to be followed for offering different types of blocks (viz. Frontier, Deep- Water, Shallow- Water and Onland/ Offshore in commercially proven basins, discovered small/medium, virgin and promising). In NELP, they are offered with negligible differences in contract terms and with same (or common) method of award (details in para 1.10).	PetroFed suggestion of giving sensitivity to type of blocks accepted. BEC for different types is different in NELP VI.
f) An independent upstream regulator needs to be in place avoiding further delays (details in para 1.11).	Not a part of NELP. No progress on this suggestion as yet. The institution of DGH in not perceived by the industry to be independent. In order to gain confidence of the investor confidence DGH must operate at arms-length with the Government.
<p>1.5 Changes In NELP Before Floating Sixth Round</p> <p>(a) Enforcing penalty provisions in PSC on operators/JVs defaulting on Minimum Work Program</p>	DGH is proposing to introduce a Past Performance clause in the NELP VII BEC. Objective criteria being evolved in consultation with the industry.

Recommendations	Comments (whether suggestion incorporated in NELP VI)
(b) Non-proprietary Data generated by operators must be shared , which is an internationally accepted practice, to start with, after 5 years	Accepted under NELP VI. Government has the right to disclose all data relating to a block, except proprietary data, on or after 3 years of its acquisition.
(c) Fine tuning of weightages in the Bid Evaluation Criteria	Accepted. The Government has reduced the weightage of MWP and increased the weightage assigned to Fiscal Package and Technical Capability.
(d) Allowing Seven years' tax holiday in a term of Fifteen years	Not accepted.
(e) In case of discovery, allow retention of more than 75% area for additional period and allow relinquishment on yearly basis rather than at the end of exploration phase, to avoid inactivity	Under NELP VI the number of exploration phases has been reduced from three to two. Also the Contractor has been given an option to relinquish 25% of the Contract Area after the completion of Phase I. Relinquishment at the end of each Contract year has not been considered by the Government. The industry has again suggested to incorporate this provision in NELP VII.
(f) Radical improvements in procedures for issuance of Essentiality Certificate (EC)	Not a part of NELP.

Recommendations	Comments (whether suggestion incorporated in NELP VI)
	(EC has to be obtained as per the directive of Dept of Revenue in the Ministry of Finance)
(g) A thorough review of the clearances required to be obtained by the operator with an objective reduce them and concentrate time and efforts on exploration than compliances.	It is learnt that the Government is obtaining State Governments in-principle approval and clearances before offering blocks under NELP VII. 0020
<p>2.3 Fiscal Stability Provision In The Contract</p> <p>2.3.1 The 'Fiscal Stability' assurance by Gol provides comfort to oil companies and the feedback of companies after road shows indicate that this is a very attractive assurance. A clause in the Model PSC assures revision of contract terms to protect the economic benefits, both to the company and the Indian government, in the case of a change in law and tax.</p> <p>2.3.2 The E&P companies have observed that the economic benefits to the companies, rather than to the government, need to be protected, given the high risk nature of business.</p> <p>2.3.3 Further, the E&P sector is demanding more fiscal incentives than are currently provided. Despite the assurance of fiscal stability, over the years Gol has introduced legislation which have resulted directly or indirectly into a fiscal burden on E&P companies.</p> <p>2.3.4 To illustrate, some of the recent additional levies announced by the Ministry of Finance of Gol include</p> <p>a) Education Cess @ 2% over direct and indirect taxes (Finance Act 2004),</p> <p>b) Service Tax currently @ 10% plus education cess on services received during Exploration activities (Finance Act 2004 and 2005) and</p> <p>c) Fringe Benefit Tax @ 30% plus surcharge and education cess on a specified percentage of benefits in expenses</p>	Budget provisions do not in any way reflect intent of maintain fiscal stability assurance (Service Tax rose to 12%, exemption to E&P industry in Service Tax, FBT not granted)

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>incurred on employees, being fringe in nature (Finance Act 2005).</p> <p>2.3.5 This is being viewed by E&P companies as the main reason for the loss of confidence of the investors in NELP terms.</p> <p>2.3.6 On the other hand, it is pertinent to mention that the rate at which the income of foreign companies, including E&P companies, is assessed for tax has decreased over the years from a high of 55 percent during 1996-97 to 40 percent in 2004-05. The benefit, however, has not accrued to the companies since commercial production starts years after winning a block and the initial tax holiday, in any case, was meant to insulate companies during those years.</p>	
<p>2.4 Contract Finalization</p> <p>2.4.1 The Production Sharing Contract (PSC) is required to be finalised on the basis of the Model Production Sharing Contract (MPSC) document circulated along with the Notice Inviting Offer (NIO). Investors find it obvious and presume that the contract will be signed based completely on the model terms and conditions enumerated in the Model PSC.</p> <p>2.4.2 However, MoPNG's "press release" on NELP V awards dated July 25th, 2005, stipulates that the cost estimate given by the successful bidders will be taken as benchmarks for the purpose of allowing cost recovery in respect of all three exploration phases. However, Article 15 of MPSC states that the contractor is entitled to recover 100 percent of the total exploration costs actually incurred.</p> <p>2.4.3 The press release further stipulates that "in case the contractor fails to complete the Minimum Work Programme (MWP) as bid for, he would be required to carry out equivalent or additional/substituted exploration work programme failing which they will be required to pay equivalent money to the Government". MPSC's Article 5.7, however, states that "in the event that the Contractor fails to fulfil the said MWP by the end of the relevant Exploration Phase or early termination of the Contract by the Government for any reason whatsoever, each Company constituting the Contractor shall pay to the Government, within sixty (60) days following the end of the relevant Exploration Phase or early termination of the Contract, as may be the case, its Participating Interest share for an amount which, when evaluated in terms of the MWP specified for the relevant Phase, is equal to the amount which would be required to complete the said MWP."</p>	<p>MoPNG did not change the stand on introduction of these two clauses. The NELP V contracts were signed including these last minute introduction.</p> <p>The clauses have not found place in the NELP VI MPSC. ECS has however recommended application of this cap on cost recovery clause in NELP VI as well.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>2.4.4 Thus, the PSC terms for the MWP commitment of the contractors, released by the Government for the successful bidders of NELP V, do not seem to be congruent with the declared terms under the MPSC. This has already been referred to MoPNG vide letter dated August 10th, 2005, placed at Annexure II : Letter Sent to MoPNG on Most Immediate Issue on NELP V.</p> <p>2.4.5 In relation to the controversy over the issue of Frontier Areas, it has been pointed out that in the bid format (Document No.2) under serial No. VI (b) under “Contract Exploration Phases”, it is mentioned that in case of frontier areas and deep-water, an extra year shall be available in Phase I of the exploration period and the frontier areas have been defined in the MPSC under Article 1.50. However in the NIO, under “Terms and Conditions” at Serial No. 5 “Exploration Period”, no mention of frontier areas has been made.</p> <p>2.4.6 The ambiguity or deviation from the terms assured prior to bidding is learnt to have created confusion amongst E&P companies and may even affect their exploratory initiatives in the frontier areas of the country.</p>	
<p>2.5 Establishment of Data Repository</p> <p>2.5.1 Data provided to bidders during NELP rounds, it's quality and sufficiency, is one of the most commented upon subjects by the industry in the survey.</p> <p>To summarise, they have broadly said that:</p> <p>a) Sufficient geo-scientific data should be available for assessment,</p> <p>b) Online data viewing facility should be available round the year,</p> <p>c) The Government should allow oil companies to acquire data from areas that are not being operated that can be sold to interested companies and its import should attract nil customs duty,</p> <p>d) Data of surrounding area / basin should be made available to bidder,</p>	<p>The Government has amended Rule 19 of the Petroleum & Natural Gas Rules to enable the Government / DGH to get all data from licensees / lessees, free of cost as and when these are acquired and become available. All non-proprietary data can be disclosed by the Government at any time and proprietary data can be disclosed with the consent of the licensees / lessee at any time after 5 years from the date from which such data become available or termination of license / lessee,</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>e) DGH must maintain a repository of all data acquired by NOCs and IOCs and provide access to interested companies,</p> <p>f) Non-Proprietary Data shall not be considered confidential after a period of five years,</p> <p>g) Operators faced difficulties in getting raw data from ONGC, despite a provision in PSC of a 90- day limit.</p> <p>2.5.2 Bidding for blocks with inadequate or poor-quality data is considered risky by companies. Packing the complete process starting from 2D (or even a basic survey) to development and production into single contract may not attract companies to invest. The risk will be too wide to take. Despite the large sedimentary basins, India is yet to completely evaluate and prove the existence of hydrocarbons. Even regional data is not available in some areas.</p> <p>2.5.3 Basic data needs to be available in order to establish the prospectivity of India, publicise this among the investor fraternity and also enable companies evaluate the risk, use technological innovations to process and interpret data,. With respect to generating interest of international investors, it may prove to be rewarding to carry out surveys, make data available and provide it to investors before they bid.</p> <p>2.5.4 A model like TEC (“Technical Evaluation Contract”) is limited to exploration activities in larger areas aimed at identifying specific areas for subsequent E&P contracts; it can include up to stratigraphic wells and it has a preferential right to subscribe an E&P contract. The Government works together with geophysical service companies to conduct the "nonexclusive speculative surveys (NESS)" so that the sub-surface data in open areas is available to the prospective investors. Older NESS data are reprocessed and the study packages of geochemistry that includes source rock are also available. Through these facilities, the government hopes to mitigate the exploration risk and attract investment in these areas previously considered as "high risk". As is the case in the United Kingdom, the new “Promote Licence” designed to encourage smaller firms to participate in offshore exploration, offers a sharply reduced licence fee for two years.</p> <p>This period is provided to assess the licence area and promote the assets to potential investors which, the licensee hopes, will agree to finance the cost of drilling.</p> <p>2.5.5 To significantly improve the poor availability of geo-seismic data, it is now necessary to concurrently award contracts or licences of the nature of Non-Exclusive Speculative Surveys (NESS) or Technical Evaluation Contracts</p>	<p>whichever is earlier, at the discretion of the Government. This will enable creation of a National Data Repository (NDR) by facilitating DGH to get data from NOCs and private companies for all acreages held by them from time to time.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>(TEC) or Promote Licence (PL).</p> <p>2.5.6 As regards fetching data from the NOCs, companies feel that data accessibility is poor, which exacerbates the situation created by poor-availability of data. It is time India adopted the internationally prevalent practice in the industry of pooling the data under the Government's control and providing round-the-year access to interested investors.</p> <p>2.5.7 It is estimated that the, collection, formatting, processing, uploading and preserving of data will take years rather than months, once a decision is taken in this regard. In view of this, PetroFed and the companies hope for an early implementation of this idea.</p> <p>2.5.8 On March 2nd, 2005, during the brainstorming session on Upstream R&D Issues, the Minister of Petroleum & Natural Gas and Panchayati Raj felt that a NDR should be created. PetroFed wishes to reiterate the need for a time-bound action leading to online access of data.</p> <p>2.5.9 Further, to enable pro-active evaluation of areas by companies, NDR needs to be accessible online.</p>	<p>PetroFed is of the opinion that steps need to be taken by the GoI to be made public will give confidence to all stakeholder. Silence or procrastination on the part of Government is not encouraging.</p>
<p>2.6 Tax Holiday</p> <p>2.6.1 One of the fiscal incentives extended to E&P companies bidding for exploratory blocks under NELP is the provision of a tax holiday for a period of seven years from the commencement of commercial production. However, E&P</p>	<p>No changes in NELP VI neither in</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>companies feel that during this period, they have large expenditures to offset and hence, they do not actually benefit from the tax holiday. The companies, therefore, request the freedom to choose their seven year tax holiday from the initial period of 15 years.</p> <p>2.6.2 It is pertinent to note that irrespective of the income tax holiday available to an E&P company, it is subject to tax in India under the Minimum Alternate Tax ('MAT') regime, in case the income tax (computed as per the provisions of the domestic tax law) is lower than 7.5 percent of book profits.</p>	<p>Budget 2006.</p> <p>The MAT provisions have, however, undergone some changes. An E&P company will be subject to tax under MAT in case its income tax payable is lower than 10% of book profits. The tax rate under MAT has been increased from 7.5% to 10%.</p>
<p>.2.7 Minimum Expenditure Commitment</p> <p>2.7.1 Under NELP, no expenditure obligations have been prescribed by Gol. A bank guarantee for a desired percentage of the expenditure related to the agreed annual work programme is, however, required.</p> <p>2.7.2 This provision does not seem to hold good in the context of the terms recently specified with the award of NELP V blocks as the cost recovery has now been capped at the level of the bid amount and not the cost actually incurred on exploration.</p> <p>2.7.3 A realistic and prudent decision is expected by companies from the Government, i.e., to allow the recovery of costs actually incurred.</p>	<p>NO change over the old terms. Mandatory Work Programme has, however, been specified for each block on offer.</p>
<p>2.8 Essentiality Certificate and Customs Duty</p> <p>2.8.1 In order to import duty free goods and services under the PSC, a contractor is required to obtain an Essentiality Certificate (EC) from DGH. The broad objective of EC is to ensure that only required goods are imported and that there are no comparable indigenous substitutes or supplies available within a reasonable time period.</p> <p>2.8.2 The companies, however, have voiced concern on the subject of obtaining an EC from DGH. The present system is extremely cumbersome and time consuming, resulting in undue financial hardships to the contractor and results in overshooting the timelines for the exploratory phase.</p>	<p>Not a part of NELP. No change in NELP VI terms.</p> <p>(EC has to be obtained as per the directive of Dept of Revenue in the Ministry of Finance)</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>2.8.3 The procedure for obtaining an EC may be simplified by adopting the following:</p> <ul style="list-style-type: none"> a) Self-certification by the operator with the provision of suitable penalty clause(s) for any false declaration submitted, b) Consulting the compendium of notified goods which is updated from time to time by the customs authorities, c) Seeking the professional help of empanelled consultants/ advisors/experts, acting in close association with the Customs to identify and verify the notified goods. <p>2.8.4 Further, to overcome the inordinate delays in processing an EC for the same service equipment hired or used by more than one company, it can be granted at one go for the complete chain of contracts already tied up while importing the equipment. Also, for unforeseen extended usage of the equipment by other operators, a flexible and practical method can be devised. In the past, to meet such requirements, operators have reimported the equipment.</p> <p>2.8.5 From April 2003 to March 2004, DGH issued 6,595 ECs comprising about 90,377 items worth Rs.19,257 crore. With the emphasis being placed on stepping up exploratory efforts in the country, it shall become increasingly difficult for DGH to process the increasing requests for ECs from the contractors. Adopting the suggested procedure will not only reduce the work load of DGH but also enable the contractor to honour his commitments to adhere to the agreed timelines for the completion of each exploratory phase.</p>	
<p>2.9 PSC Terms - Royalty on Crude Oil & Natural Gas</p> <p>2.9.1 Royalty is determined in accordance with Petroleum and Natural Gas Rules, 1959. Royalty is payable on “well-head value” of production for onshore area at the rate of 12.5 percent for oil and 10 percent for natural gas. The companies are required to pay royalty on “wellhead value” of production of oil and gas at the applicable rate of 10 percent for offshore areas (i.e., up to 400 metre isobaths). Royalty for deep water areas beyond 400 m isobaths is chargeable at half the applicable rate for normal offshore areas for the first seven years of commercial production and thereafter, at the rate of 10 percent.</p> <p>2.9.2 The lack of clarity over the definition of the term “wellhead value” has resulted in disputes leading to avoidable</p>	<p>No change under NELP VI.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>litigation. There is a need, therefore, to clearly define the terms.</p> <p>2.9.3 Some state governments have demanded royalty payments under the pre-NELP regime. Even though this has been remedied under NELP by fixing an ad-valorem percentage of royalty, the Central Government should strictly enforce the provision to demonstrate fiscal stability and reinforce the confidence of investors.</p>	
<p>2.10 PSC Terms - Profit Oil and Gas in Kind</p> <p>2.10.1 The proposed plan of Gol to introduce taking profit gas in kind rather than cash will be detrimental to the growth of the natural gas sector in India. Such a move will make it virtually impossible for producers to forecast the actual volumes of gas available to them to market and hence would make it impractical to commit a specific quantum of gas to downstream customers without risking a physical disruption in gas supplies.</p> <p>2.10.2 Further, in certain PSCs, the producer could be left with a small fraction of the produced gas, owing to the high share of the government entitlement at high investment multiples. The long term trend is that the proportion of profit gas will increase as the field becomes more mature and capital expenditure reduces.</p> <p>In some cases, the amount of profit gas can be as high as 90 percent. This will mean the marketing rights that have been given to the producer, effectively get taken away as the field life progresses.</p> <p>2.10.3 Again, this presents an impractical situation in terms of developing a gas marketing business. This uncertainty leads to increase the risk for any new or existing investor in the upstream sector in India, hinder offshore oil and gas field development domestically and defeat the government's objective of enhancing India's energy security by increasing the exploration and production of natural gas.</p> <p>2.10.4 In view of the foregoing, it is urged that the Gol agrees to permit profit gas sharing in cash. PetroFed on behalf of industry requests an urgent resolution of the issues in a time-bound manner and advocates the applicability of such clause to the crude oil as well.</p> <p>2.10.5 It may be noted that investors are deterred from making investments due to these uncertainties.</p>	<p>No change in old terms. PetroFed suggestion not accepted.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>2.11 Provision of Assignment</p> <p>2.11.1 Companies feel that the approval of the assignment by Gol is a long-drawn process. Although “deemed consent” clauses start after 120 days as per the PSC, they are not followed in spirit as observed by their non-implementation so far.</p> <p>2.11.2 In order to expedite the process of approval, the assignment can be categorised as under:</p> <p>a) For companies seeking assignment and already operating in India, faster approval may be accorded within prescribed timelines,</p> <p>b) For companies with a net worth US\$ 1 billion, the procedures can be simplified.</p>	<p>No change in old terms.</p>
<p>2.12 Bid Evaluation Criteria - MWP</p> <p>2.12.1 Many companies have expressed that the weightage being given to the minimum work programme (MWP) is unduly high in comparison to other parameters. Some suspect that companies may have resorted to speculative bidding by submitting aggressive work programmes inconsistent with the geology of the area and thereby bagged the block.</p> <p>2.12.2 Under the existing PSC, contractors are required to give money to the government in lieu of the unfinished work programme or on withdrawal from the block. As regards the bank guarantee to be given, the value was to be 35 percent of the company's participating interest share of the total estimated annual expenditure in respect of the work programme to be undertaken by the contractor.</p> <p>2.12.3 During discussions with companies on August 10th, 2005, there was an observation that companies are bidding aggressively just for the sake of winning, without even carrying out analysis of data provided. Some companies strongly defended this saying they are committed to fulfilling the MWP as quoted and that they have done so only after due evaluation. Reacting to the suggestions that the MWP needs to be quoted against a suggested benchmark by DGH in the bid document or that the MWP needs to be weighed against realistic assessment made previously by a team of expert geoscientists and exploration economists, some companies stated that the evaluations will be highly subjective, suppressing utilisation of technical skills and entrepreneurial innovations while bidding for the block. The majors who</p>	<p>Accepted and weightage for MWP reduced. Also different weightage applied for different types of blocks.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>possess state-of-the-art technology and analytical capabilities may not be done justice, when evaluated by a set of experts. Further, they stated that the evaluations undertaken by DGH may not be the best as it is dependent upon technology used, competency of experts, subjectivity of the geological model, etc.</p> <p>2.12.4 The companies concluded that nonfulfilment of MWP ought to result in enforcement of penalty. While enforcing penalty provisions of the PSC on wilfully defaulting operators, Gol should ensure that the contractor is not encouraged or forced to drill wells merely to meet MWP obligations. This would avoid wasteful expenditure.</p> <p>Instead, the MWP obligations should be transferred to an alternate work programme mutually agreed to by DGH and the contractor to enable genuine exploration efforts.</p>	
<p>2.13 Bid Evaluation Criteria -Technical and Financial</p> <p>2.13.1 Some companies have commented on the current BEC provisions regarding the Technical and Financial criteria. They feel that for awarding a block to a consortium, the technical capabilities and operatorship experience of the operator and the financial capability of the consortium as a whole may be evaluated. The technical capability of the non-operator may not be considered as such an alliance may be intended to provide financial support. Further, weightage for technical capability for deepwater blocks may be higher. Before floating the next round, these suggestions may be evaluated.</p>	<p>Accepted.</p> <p>Technical parameters of only the operator to be considered.</p> <p>Also, weightage assigned to technical capability has been increased.</p> <p>For financial capability the weightage assigned in earlier rounds has been done away with. Bidder/each company in the consortium to give a certificate from their statutory auditor that it's NET WORTH is greater than or equal to the MWP (including mandatory WP) commitment of the first exploration</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
	phase.
<p>2.14 Clearances by Operators</p> <p>2.14.1 Some companies have suggested that necessary licences and statutory clearances related to environment, defence, forests, wildlife, marine park, etc., be minimized. Further, all these clearances should not be required by the operator after announcement of the NELP blocks. Some of them, which are practical, should be obtained in principle by MoPNG before floating the blocks for award.</p> <p>2.14.2 MoPNG (DGH) obtains clearance of the Ministry of Defence, Ministry of Environment and Forests, etc., before blocks are floated in the rounds. The operators, however have faced unique problems. The clearances issued have been revoked and operators asked to re-apply. In some cases, due to legislations passed after the award of PEL, fresh clearance requirements have arisen or the operations have had to be curtailed. These situations have led to difficulties for operators, at times inordinately delaying exploration work.</p> <p>2.14.3 PetroFed suggests that MoPNG undertakes a review of the clearances required by the operator. The review would identify any clearances that can be obtained by DGH, prior even to the issue of PEL, which would facilitate the operators to undertake their core activities of exploration in an unhindered manner.</p> <p>2.14.4 On a concurrent note, it is requested that the time limit specified in the PSC be extended, taking into account the resultant time lost, if any, due to delays in the Government's approvals beyond the reasonable control of the contractor.</p> <p>2.14.5 Almost all operators have experienced delays in obtaining PELs and they feel it is an operationally unproductive activity. The issue of PELs in many cases has delayed the exploration activity to an unrecoverable level necessitating extensions of programmes. The companies suggest that MoPNG can try to obtain an "in-principle PEL" from the state government before the blocks are awarded to the operator. The actual PEL can be issued on appointment of the operator. This would allow more time for exploration.</p>	<p>No solution was expected in NELP VI announcements. This is an operational issue including consideration by the state government.</p>
<p>2.15 Profit Petroleum Sharing</p> <p>2.15.1 The sharing of profit petroleum is to be bid by the companies, based on a sliding scale tied to pre-tax multiples of</p>	<p>Fiscal package has been assigned</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>investment recovered and is expected to be specified in the contract.</p> <p>2.15.2 Some bidders suspect that the government- owned companies (ONGC, OIL, IOC, GAIL, HPCL, BPCL, etc) could bid for higher profit sharing, because either way the profit petroleum remains with government. This helps them to get a higher score and may lead to a skewed evaluation.</p> <p>2.15.3 A suitable cap on evaluation of the parameter 'Government Take' may be considered.</p>	<p>the highest weightage</p> <p>The Govt. while calculating its NPV (i.e. the Govt. take) will now exclude royalty and income tax due to the Govt. from the contractor.</p> <p>Various assumptions used in economic evaluation of bids were disclosed to all the bidders before bid submission.</p>
<p>2.16 Relinquishment</p> <p>2.16.1 Under Article 4 of MPSC, the Contractor is required to retain up to 75 percent of original Contract Area and relinquish 25 percent at the end of each 1st and 2nd exploration phases.</p> <p>However, a provision exists allowing the contractor to retain larger area in the event of any discovery/development area turning out to be larger than 25 percent of the mandated relinquishable area.</p> <p>2.16.2 Companies, particularly those which have large exploration blocks, feel that they will have difficulty in identifying the area of relinquishment at the end of 1st phase (two to three years or four years for deep water blocks). This problem becomes more acute when a discovery is made within the 1st phase and all the focused activity gets restricted to the discovery /development area through appraisals, etc. Thus they have little time left to carry out meaningful explorations in the other parts of the block. Often, companies have requested the Government to allow retention of the total area beyond 1st phase.</p> <p>2.16.3 This situation deserves to be examined by the Government wherever justifiable. Perhaps a provision can be introduced in PSC that in such instances based on merit, on the request of the Contractor, the Contractor may be allowed to retain more than 75 percent of the area subject to:</p>	<p>The exploration phases have been reduced from 3 to 2 under NELP VI.</p> <p>For:</p> <p>(i) onland/shallow water blocks – 4+3=7</p> <p>(ii) deepwater/frontier blocks – 5+3=8</p> <p>(For the first time frontier, area blocks have been specified in the NIO)</p> <p>Under these new provisions relating to the number of exploration phases,</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>a) commitment of an additional work programme in the block, which can be worked out by DGH based on the area to be retained and the time period for which the contractor wants to retain the area,</p> <p>b) retaining more than 75 percent area by suitably extending the period by say, three years,</p> <p>c) the condition that such request is permitted only once during the exploration period.</p> <p>2.16.4 The above provisions would not only make possible additional exploratory inputs in the area but also provide incentives to companies interested in carrying out exploration activities.</p> <p>2.16.5 Similarly, operators who have no plans to carry out any activity in the area awarded after a certain period of time for any reason, may wish to relinquish the block or a part instead of carrying on with the obligation. To bring these areas into active circulation again, the Government may like to evaluate allowing relinquishment of such areas by operators on a yearly basis rather than at the end of exploration phase.</p>	<p>the companies have the option to relinquish a minimum of 25% of the total contract area if they wish to proceed to the second phase. At the end of the second exploration phase the contractor shall retain only the development and discovery areas.</p>
<p>2.17 Pattern of Exploration Blocks on Offer</p> <p>2.17.1 It is time that MoPNG looks into the aspect of objectivity vis-à-vis PSC terms and conditions for the exploration blocks put on offer. It is well-known that the Indian basins are divided into four categories based on the perceived prospectivity of their hydrocarbon potential. This contention is professed in all promotional campaigns. It is then logical to give a thought to the PSC terms and conditions as currently made applicable equally to different set of exploration acreages put on offer.</p> <p>2.17.2 The Blocks can be categorized as under:</p> <p>a) Blocks from Cat I Basins (proved areas),</p> <p>b) Blocks from mid-prospective areas (mainly Cat II & III Areas),</p> <p>c) Frontier areas (other than Deep Water areas),</p>	<p>PetroFed suggestion has been accepted. Blocks have been identified as Type A or Type B under two broad categories i.e.</p> <p>(1) onland and shallow-water blocks (upto 400M bathymetry)</p> <p>(2) Deepwater blocks (beyond 400M bathymetry).</p> <p>Thus the blocks have been categorized under 4 categories.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
<p>d) Deep Water areas,</p> <p>e) Blocks from Cat IV areas (unknown prospectivity areas),</p> <p>f) Based on the above categorization of blocks, the PSC terms and conditions can be tailor-made to attract global investments.</p> <p>2.17.3 For example, companies willing to participate in Frontier area blocks or Cat IV blocks can be given added incentives. Some of the marginal fields can be offered to them preferentially if they participate in these Frontier areas or Cat IV blocks. This issue requires some debate but nevertheless needs the immediate attention of the government.</p>	<p>Also the bid evaluation criteria for the 4 categories is different.</p> <p>For the first time blocks have been identified as frontier blocks upfront and monitored in the NIO.</p>
<p>2.18 Level Playing Field Data Availability</p> <p>2.18.1 The carried interest and probably the mandatory state participation in the pre- NELP period has proven to be an impediment for the participation of foreign companies in E&P in India.</p> <p>Thus, in order to provide a level playing field for all participants, the mandatory state participation and/or NOC carried interest have been done away with progressively under the NELP regime.</p> <p>2.18.2 While a lot can be said to on achieving a level playing field, some foreign companies feel that not only is data about the blocks on offer already available with the NOCs but regional data and basin/sub-basin information is also available with them. This, according to the foreign companies, places the NOCs at an advantage while preparing and submitting their bids for these blocks.</p> <p>2.18.3 This view was debated during the meeting on August 10th,2005. The NOCs say that they have been operating in India for decades and their experts have had exposure to the basins in India and their peculiarities for decades. The advantage enjoyed by the NOCs can at best be termed as 'natural' but not 'unfair'.</p> <p>2.18.4 It would be worth evaluating if it is possible to fairly share with all bidders all the data available with NOCs, if it has not already been shared. If the NOCs do not have the privilege of the data availability, the Government may make</p>	<p>Status not expected to change in announcements of new rounds. Not a part of policy.</p>

Recommendations	Comments (whether suggestion incorporated in NELP VI)
special efforts to build confidence in investors on this account.	
<p>2.19 Marketing of Crude Oil & Natural Gas North East</p> <p>2.19.1 The companies have been given the freedom to sell crude oil and natural gas in the domestic market at market determined prices.</p> <p>2.19.2 However, some companies in the North-East are not able to market gas produced at market determined prices due to a total reliance on the restricted infrastructure and off-take. As regards the crude, movement is hampered by poor road conditions . Transit losses are borne by the operators. The custody transfer takes place typically once in seven days preventing higher rates of crude export.</p> <p>2.19.3 The options available to overcome these marketing related issues include)</p> <ul style="list-style-type: none"> a) Additional incentives or fiscal concessions, b) Special attention to improving road infrastructure, c) Building pipelines from the field to nearest refinery whenever economically viable, d) Cost recovery permission for additional storage facility at production site. 	<p>Region specific concern. Not a part of policy.</p>

6 Compendium of Company Responses

6.1 Purpose

6.1.1 PetroFed received comments from companies. These comments covered their experiences of NELP VI, comments on NELP VI and suggestions on what changes should be incorporated before rolling out NELP VII.

6.1.2 With the purpose of servicing transparency objective, PetroFed has prepared a compendium of unadulterated comments in the following table. These comments, as planned in advance are being provided without linking them to the company names. PetroFed promised maintaining this confidentiality of source of comments to encourage companies to provide their frank comments.

6.2 The Compendium

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
NELP Objectives	1	No comments	
	2	No comments	
	3	No comments	
	4	The NELP process objective is: <ul style="list-style-type: none"> • To maximize, through award of oil and gas acreage, the exploitation for hydrocarbon. • To obtain an equitable return (not the best) for India on the production of hydrocarbons. In valuing the impact of production of a unit of hydrocarbon, from the India perspective, one must include the multiplier effect. This is the effect one unit of hydrocarbon has on expanding the GNP through other industrial and domestic growth. This multiplier effect, in the view of the writer, is many fold greater than the value India receives from its share of hydrocarbon production. Therefore in NELP rounds the emphasis should be on equitable returns not the best return.	
	5	No comments	
	6	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	7	No comments	
	8	No comments	
	9	We also acknowledge that positive efforts have been made by Ministry and DGH to further evolve the NELP framework, in particular Bid Evaluation Criteria (BEC), to attract more foreign investment in the exploration of India's hydrocarbon resources. Some of these changes have been a step in the right direction, but more radical changes are necessary to attract international companies with the right level of organisational capability to deliver most efficient and optimum development, particularly in blocks where more technically challenging resources are required.	It is important that the evaluation process reflect NELP's overarching objective of introducing diversity, competence and investment scale in exploring Indian sedimentary basins.
Issue 1			
Periodicity of NELP rounds	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 2			
Categorisation of Blocks	1	No comments	
	2	No comments	
	3	The Government should continue with categorisation of the offered blocks in Type 'A' and Type 'B', as done in NELP-VI, based on whether the block falls in frontier area/deepwater or not. However, the Model PSC for the frontier area/deepwater blocks should be made more attractive.	The companies willing to invest in frontier area/deepwater blocks should be given added incentives so as to make these areas more

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
			attractive for such companies.
	4	No comments	
	5	Categorization of blocks into onland, shallow water, deepwater, frontier areas and blocks below 500 sqkm.	Since each category of blocks has different level of sensitivity , the regulatory body should come out with a prequalification criteria which will encourage both the small and big players equally.
	6	No comments	
	7	No comments	
	8	To add the phrase "a frontier block as specified in the Notice Inviting Offer (NIO)", after block name is provided	
	9	Categorisation of Blocks is important and the current framework does offer some differentiation in the BEC, but a higher level of differentiation among categorised blocks will help to achieve a more fit for purpose result. Given the level of risk in deepwater, longer term incentives may be more suitable.	For example deepwater and frontier blocks could be given much higher technical capability weightage relative to fiscal package to incentivize and attract the most suitable investment.
Issue 3			
Identification of Frontier Area Blocks	1	No comments	
	2	No comments	
	3	All the blocks located in logistically/technically difficult to access areas and having no or scanty data should be categorized as frontier area blocks.	The definition of 'frontier area' blocks should be made in such a way so that it can be applied to such blocks uniformly without any ambiguity.
	4	No comments	
	5	No comments	
	6	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	7	No comments	
	8	No comments	
	9	No comments	
Issue 4			
Adequacy of Exploration Period	1	No comments	
	2	No comments	
	3	The Govt should continue with the present system of 7 years' exploration period for non-frontier area/deepwater blocks and 8 years' exploration period for frontier area/deepwater blocks.	If exploration period is to be decided on the basis of size and location of each block then there will be too many variants.
	4	No comments	
	5	According to the clause 3.5.1 the blocks with different characteristics like size; location and basin geology should have different exploration periods. In addition to that the exploration period should also extend if there is problem with security like the blocks in the frontier areas. Environmental clearance approvals according to the revised new Government policies are time taking and this period should be taken for consideration.	
	6	No comments	
	7	No comments	
	8	The duration of the first Exploration Phase should be 5 (five) years The duration of second Exploration Phase should be 5 (five) years	
	9	No comments	
Issue 5			

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
Data Adequacy	1	There is a significant knowledge gap by MNCs about India's basins. Lack of data to assess prospectivity sidelines many MNCs. Government should invest in enhancing both quality & quantity of data (primarily seismic data) before the bid rounds and also make well data available from adjacent blocks.	It helps provide sufficient data so that MNCs can develop a better view of prospectivity. At the moment there is too much dependence on leap of faith.
	2	No comments	
	3	Before offering a block, that block should be adequately covered with good quality geo-technical data and all such data should be made available to the interested companies at the time of offer.	Such a measure will not only help the Govt in assessing the true potential of the offered blocks but would also help the companies in properly evaluating the blocks and submitting the appropriate bids based on blocks' prospectivity.
	4	No comments	
	5	The data provided in the NELP package in some of the block is very scanty and taking exploration rigs based on this data does not encourage private players.	Many of the PSU, s are having data in a regional sense and are in a better position to evaluate certain blocks in a better way than private companies. Central database system should be created with regional data and should be accessible to all players. The government should encourage oil companies to acquire data beyond the block limit and allow cost recovery for the same. They can be entitled to sell this data to interested companies. Central repository system will help to mitigate risk to a large extent.
	6	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	7	No comments	
	8	No comments	
	9	No comments	
Issue 6			
Data Quality	1	No comments	
	2	No comments	
	3	Same as Article 3.7	Same as Article 3.8
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 7			
Data Interpretation	1	No comments	
	2	No comments	
	3	In most of the cases, it has been observed that the blocks' data contains the geological model(s), which is also made available to the companies at the time of data viewing.	
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	9	No comments	
Issue 8			
Access to additional data relating to adjoining block	1	No comments	
	2	No comments	
	3	Efforts should be to make available at least the key technical data of adjoining blocks. In case of awarded blocks, to enable the new entrant for better technical assessment of a block, it should be made mandatory for the previous operator to readily make available all the technical data of the block, not present in the data package, in a given timeframe.	This will help the interested bidder to have a better estimation of the hydrocarbon prospectivity of the block on offer. Almost all the blocks offered under previous NELP rounds were previously under the operatorship of ONGC/OIL. The data package of a particular block may not always contain the entire technical data available with earlier operator, which should be made available within a reasonable timeframe/cost.
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 9			
Size of Blocks	1	No comments	
	2	No comments	
	3	Instead of offering blocks having very large aerial extent, the Govt should offer	It will not only increase the

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		smaller blocks.	number of available blocks to the bidders but would also help the awarded companies to carry out thorough exploration covering the entire block area during the stipulated 7/8 years' exploration period, as applicable.
	4	No comments	
	5	The clause 3.11.1 states that a well-planned strategy should be adopted to cover all the 26 sedimentary basins. The blocks on offer should have uniform block size so that there is no problem with the areal extent. Again in case of relinquished areas the carved out area should be made even viz. 100 km ² .	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 10			
Minimum commitment of one exploratory well in Phase-II	1	No comments	
	2	No comments	
	3	No weightage should be assigned to Phase-II minimum work programme (MWP) commitment.	In view of exit option available to the contractor at the end of Phase-I, Phase-II MWP commitment effectively carries no meaning.
	4	No comments	
	5	Under the clause 3.12.1 the options of assigning the proper weightage to the phase II commitment should be designed to be half of the weights assigned for Phase I.	
	6	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	7	No comments	
	8	No comments	
	9	No comments	
Issue 11			
Relinquishment Provisions	1	No comments	
	2	No comments	
	3	The Contractor should have the option to relinquish any part of the original Contract Area prior to the commencement of each Contract Year during first Exploration Phase.	This will save the Contractor from paying the License Fee for that part of the Contract Area, which, in his opinion, is not of hydrocarbon interest, and at the same time, such relinquished part of the area will be back with the Government at the end of every Contract Year.
	4	No comments	
	5	No comments	
	6	No comments	
	7	Relinquishment of areas or blocks is mostly done by companies as per the norms laid down by MOPNG or as per the PSC provisions. Some times, the prospectivity of the relinquished area may change as a result of any lead/discovery made in the vicinity of the relinquished area and enhance the prospectivity of the relinquished area. Thus a company may have a renewed interest in the relinquished area. Further, due to technological developments, exploration in relinquished area which might have not been possible in the past, may become possibility. Also, a company may join hand with a partner having requisite technical capability to explore the relinquished area through participation in the bidding round.	It is felt that a company which has relinquished an area should not be denied opportunity to participate in the bidding process. Further it would be in the interest of the Government to enhance competition by allowing such companies.
	8	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	9	No comments	
Issue 12			
Mandatory Work Programme	1	No comments	
	2	<p>We believe that this is key</p> <p>DGH in combination perhaps with a body of leading technical experts (both Indian and International) should make an assessment of the level of work programme required based on the number of structural plays justified by the technical assessment and data currently available. We agree that depth of wells and number should be adequately justified in terms of the independent structures and plays identified.</p> <p>Based on a review of all bids and technical work the DGH (plus expert panel) should set what it considers to be the maximum work programme that is both technically justifiable and achievable in terms of schedule in each Phase. DHG should then award points on a normalised basis for each work programme with points awarded pro-rate against the maximum work programme set by the DGH. No further points would be awarded for any work programme exceeding the maximum. This would eliminate award of blocks under excessive commitments and hence costs and help to reduce finding cost per barrel.</p> <p>It may be considered that bidders should be penalised (i.e. have points deducted) for submission of work programmes which are clearly excessive or not practical or not achievable within the allotted time-frame for the exploration period.</p> <p>The work programme should be judged against activities that are appropriate to the prospectivity and terrain prevailing in the block, with additional points for new or innovative proven techniques.</p>	
	3	The mandatory work programme (2D seismic data API) should be prescribed both in grid size and total LKM, covering the entire contract area. However, if the contractor is committed to undertake and complete the 3D seismic API covering the entire contract area or a part thereof then the contractor should be exempted from carrying out the Mandatory Work Programme in the entire Contract Area or	Specifying both grid size and total LKM will avoid any confusion. Such 2D seismic data API should cover the entire contract area because the idea behind introducing the provision related

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		in the part thereof as applicable.	to the mandatory work programme of 2D seismic API, understandably, was to have the full block coverage with seismic data which will in turn help the contractor in zeroing down to the interesting area(s) from hydrocarbon exploration point of view. There is technically no merit in 2D seismic data API if that area is already covered with 3D seismic data API.
	4	No comments	
	5	The clause 3.14.1 states that there should be a mandatory work program for all the blocks but the work program should be minimum. This point should be abolished and the MWP should be purely biddable based on the merit of the block. A realistic and biddable work programme should be allowed for cost recovery purpose.	The mandatory as proposed in NELP VI should be abolished and the company should be allowed to bid a more realistic work programme based on independent evaluation of block by each operator
	6	define the work programme for each bloc, and avoid using the work programme as a part of the bid evaluation, [or significantly reduce its weight in the same].	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 13			
Fiscal Stability Provision in the Contract	1	No comments	
	2	No comments	
	3	Due to any change in or to any Indian law, rule or regulation dealing with income tax or other corporate tax, export/import tax, excise, customs duty or any other levies, duties or taxes imposed on Petroleum or dependent upon the value of	Such provision may be clearly spelt out in the PSC. This will help in avoiding any

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		Petroleum results in a material change to the expected economic benefits accruing to the Contractor after the date of execution of the Contract, necessary revisions and adjustments to the Contract should be made so that the expected economic benefits to the Contractor should not be reduced. The Contract should provide for a mechanism to review the implications of introduction of new taxes, changes in tax rates etc. every year on the Contractor.	dispute between the Govt and the Contractor at a later date and will expedite the process.
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	The economic stability clause in the contract addresses only changes to the tax legislation. The more investor-friendly approach would be to widen the scope to capture all changes in legislation with adverse economic impact on investors.	Such provision is attractive to the investors, as it reduces their risk exposure to legislative changes.
Issue 14			
Fiscal Incentives – Tax Holiday	1		
	2		
	3	Freedom to choose the 7-year tax holiday period from the initial period of 15 years after commencement of commercial production should be provided to the E&P projects, in line with the infrastructure industry projects.	As per our understanding, under Income Tax Act, infrastructure projects qualify for tax holiday u/s 80 IA and also have the option to choose the block of 10-year tax holiday out of 15 years, which is not necessarily linked to commencement of commercial production/activity. In E&P projects, if 7-year tax holiday necessarily starts from commercial production, the benefit of tax holiday may be lost because of carried forward

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
			expenditures of the previous years on account of large investment related to exploration/appraisal activity. Therefore, the contractors should be allowed to choose any block of 7-year tax holiday in line with infrastructure industry status.
	4	No comments	
	5	The period for choosing the tax holiday for seven years should lie with the companies.	Many companies felt that large expenditure to offsets did not allow them to actually benefit from tax holiday.
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 15			
Technical Capability	1	Set up a robust pre-qualification process that filters out companies who do not have a history of successful deepwater performance and technology capabilities.	Capability to deliver results has to be a pre-condition to bidding in order to deliver performance.
	2	Our recommendation would be to set minimum qualifying criteria for acreage holding, operatorship experience, annual production, geological assessment and set most marks for technical capability on an accretion criteria based on finding cost/bbl basis. Real deep water experience and financial strength should remain important criteria for deepwater blocks.	We agree that 'acreage holding', 'Operatorship experience' (measured only in years), 'annual production' are in general not guaranteed to be necessarily good indicators of exploration performance. Annual production can be purchased and very rarely results from the efforts of the current exploration teams or

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
			<p>management due to the long lead times required for this to manifest. Annual accretion suffers from the similar weakness but an indicator of '2P reserves added by exploration' would be a useful indicator and is now generally quite widely accessible from company accounts etc. Arguably a move to 1P assessment by a competent agency e.g. D&M would be more useful but is not always readily accessible and is only really meaningful in an exploration context if the reserves added by exploration effort alone can be split out from the total reserves added in any given period. Furthermore, reserves added is only part of the story (if it has taken 10 exploration wells to add 1 MMbbls of reserves then the company is not what India needs!). The classically adopted and widely valued indicator is 'five year running average of finding costs/bbl', i.e. total exploration costs in the period divided by reserves added during the period by the exploration effort. Most reputable companies will have these figures to hand and report them annually.</p>
	3	For onland/shallow water blocks having area up to 500 sq. km, technical capability should not be a criterion for bid evaluation.	This will provide level playing field to the small companies to compete effectively for

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
			onland/shallow water blocks of small size. This will also provide an opportunity to the new companies to get a foothold in the Indian E&P sector.
	4	<p>For this point would define the biddable blocks as onshore/shallow water A & B; deep water C(A) & D(B); and transferring the geological assessment to the work program.</p> <p>With these changes, the following is put forward: i) Onshore/shallow water blocks type A & B be split</p> <p>a) A1 available with no operating experience and designated as such in the bid document (similar to the DGH recommendation of Blocks less than 100 km², but clearly designated in the BID).</p> <p>b) A2 & B available to any competent operator (see note below), no Technical Capability category required, ie if the 'bidder' is afforded competent operator status then no more is required, & no points in this section.</p> <p>Note: Competent operator - basically anyone with documented operator experience as verified by DGH. This is based on the fact that technology is available on the market to develop these blocks.</p> <p>ii) Deep water blocks type C & D</p> <p>a) Technical capability is a definite advantage. All must have deep water experience. However, should only qualify into three groups utilizing the same criteria as BID, but not grading the points (ie using the same proposed methodology set threshold points for each of the groups below).</p> <p>Group I - The most experienced. All in this group would receive 10 points.</p> <p>Group II - Sufficient experience to develop the deep water. All in this group would receive 6 points.</p> <p>Group III - Minimum experience, but some deep water experience. All in this group would receive 2 points.</p> <p>Note: This eliminates the emphasis on reserves/production etc. as once you reach a bracket you would be fit into one of these groups.</p>	
	5		
	6	favour a technical pre-qualification, avoiding making of technical qualification an element forming part of the bid evaluation. If need be, different pre-qualification	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		criteria can be defined for operators or partners, and for onshore, shallow offshore and deep offshore.	
	7	This suggestion totally defies the best industry practice. It is not understood why a company with no technical background and past experience/expertise should get advantage over operators with vast know-how. Further, most of such small sized onland blocks are likely to come in producing basins where large E&P companies with years of experience and proven technical capability have been operating. They have the most experienced manpower coupled with the state-of-the-art technology and can economize the cost by optimizing facilities and resources. How companies with no background of E&P industry will fare better is not understood	It is strongly recommended to continue with the prevailing system. It may encourage over-aggressive bidding in terms of work programme and fiscal package and may compromise exploration and production efficiency.
	8	No comments	
	9	No comments	
Issue 16			
Fiscal Package	1	No comments	
	2	<p>We agree that the share of profit petroleum should be bid in an increasing trend (to Gol) with increasing IM as suggested by your modification.</p> <p>We agree that less emphasis should be placed on fiscal terms and more on technical capability providing the latter really reflects proven track record as per our comments above.</p> <p>We agree with the step to simplify the evaluation of the fiscal package but note that the reserve size and cost scenarios should be realistic and broadly representative. Again, in this respect it may be worth involving a panel of experts with some international petroleum industry content to ensure realistic Single Scenarios.</p> <p>However, we believe that further modifications are urgently needed to simplify the system and prevent abuse. Cost recovery and profit sharing are strongly inter-dependent. We suggest that, as for many international PSCs that cost recovery limit % is fixed. Again we suggest the DGH seeks the advice of an independent panel in doing this. Cost recovery limits should be fixed say between 65% and</p>	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		<p>100% depending on the difficulty of terrain/ water depth and degree of maturity or the exploration acreage. For example, deep water frontier blocks would be set at 100%, whilst shallow water/ land blocks near infrastructure or on easy terrain would be set at the lower limit.</p> <p>With cost recovery fixed it is easier to assess profit sharing. As per normal practice, more points should be awarded for higher profit sharing tranches. However, as with the concept suggested for work programme, points should not be awarded for bids which give non-commercial amounts of profit to the Gol, i.e. sufficient profit should be retained by the contractor to ensure a least a minimum acceptable rate of return on capital expended for the median size of discovery anticipated. This will ensure that government does not end up subsidising state company exploration & development efforts and that smaller fields can be developed profitably by Contractors. For the Single Scenario set by DGH, the maximum points assignable should be set based on a defined minimum acceptable ROR. No further points would be awarded for bids which lead to lower returns. Points for lower profit share bids would be awarded on a prorated basis.</p> <p>We believe that the current profit share versus investment multiple concept works very well and would not advocate changes at this point in time, e.g. for a production based system. Production based systems can encourage acceleration of production at the expense of ultimate recovery. It should be considered fair and equitable that a Contractor recovers costs as a priority and that once the Contractor has made 'reasonable' returns on investment commensurate with the risks taken, that the share returned to the Gol increases with increased profitability of the project.</p> <p>In conclusion, we advocate fixing cost recovery, retaining the existing system of profit share but limiting the profit share to Gol for which points are awarded.</p>	
	3	Sharing of profit petroleum with the Govt at various tranches of pre-tax investment multiples should be bid based on a sliding scale in ascending order in favour of the Govt. However, the flat percentage share should also be construed as in ascending order.	This will be in line with the prevailing global upstream industry practice.
	4	No comments	
	5	In reference to clause 3.18 (Fiscal package)- The bid evaluation criteria should not be disclosed before bid submission but rather it should be after bid	The proposal will encourage new players, foreign companies and

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		<p>submission. For fiscal package if investment multiple concepts is used and increase in GOI share in the higher trenches should be in 10% differential. The cost recovery should also have a cap.</p>	private players.
	6	disallow inverted government take scales such as were used for NELP VI	
	7	<p>The present system appears to be the best amongst the mentioned alternatives due to following facts: i) A key aspect of an ideal contract is to provide potential for a fair return to both the state and to companies, balancing risk and reward, avoiding complexity and administrative burden. Division of profit should be related to profitability of the project which is the essence of the present system. ii) In the present system IM is essentially a measure of profitability, calculated based on the basis of appropriate net cash flows. Proposed modifications to the existing system are also agreed for following reasons 1) Progressive tranches to GOI- since theoretically a contractor can share more with government only when profitability increases 2) To evaluate on the basis of single reserve/ production profile under single oil/gas price- is acceptable since this simplifies the evaluation process</p>	<p>The present system appears to be the best amongst the mentioned alternatives due to following facts: i) A key aspect of an ideal contract is to provide potential for a fair return to both the state and to companies, balancing risk and reward, avoiding complexity and administrative burden. Division of profit should be related to profitability of the project which is the essence of the present system. ii) In the present system IM is essentially a measure of profitability, calculated based on the basis of appropriate net cash flows. Proposed modifications to the existing system are also agreed for following reasons 1) Progressive tranches to GOI- since theoretically a contractor can share more with government only when profitability increases 2) To evaluate on the basis of single reserve/ production profile under single oil/gas price- is acceptable since this simplifies the evaluation process</p>

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	8	No comments	
	9	The current NPV-model based evaluation used in NELP is open to interpretation by the bidders in terms of what type of hydrocarbon may potentially be present. This may penalize bidders whose economics is based on a gas rather than an oil model. This ambiguity needs to be removed, so that bid economics are comparable.	For example an experienced company whose analysis suggests that gas rather than oil is the most likely hydrocarbon play may not be able to compete effectively on fiscal terms with a less experienced company which unrealistically assumes that they will find oil.
Issue 17			
Past Performance	1	Companies are able to or counting on the ability to negotiate away work program obligation without sufficient consequence. Indian companies drive to dominate at any cost. Need to penalize under performance and reward good performance.	Indian companies continue to make aggressive bids with a view that these will not be enforced once the acreage is won.
	2	We welcome new parameters for evaluation of Operators in NELP or Pre-NELP blocks but advocate that the main emphasis should be on track record of doing the right technical work in a realistic timeframe and the degree of success achieved.	
	3	Past performance of the bidders in previous NELP rounds should be considered while evaluating bids.	This will give due reward to the good performers and penalise the poor performers. Any company who had relinquished previously the block, which is again on offer, should not be allowed to bid again for such block. The idea is to encourage new players with new technology and knowledge of new/updated play concepts to explore such a relinquished block.
	4	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	5	In reference to clause 3.19 (Past performance) – Company who have relinquished a block cannot bid for same block.	
	6	No comments	
	7	<p>First of all, this puts the companies already operating in India in a discriminatory position vis-à-vis the companies which are yet to enter and/or yet to win a block under NELP as the yardstick for measuring past performance becomes different. The past performance criteria is a subjective criteria and it would be difficult to apply performance of an operator across all the blocks such as in normal blocks, frontier blocks and ultra deep water blocks. This provision has a potential to be applied in a discretionary manner and may vitiate bidding process and may affect transparency.</p> <p>It may be noted that due to very high mark allocation towards the MWP from NELP-I to NELP-v has led to aggressive work programme commitment from many bidding companies due to natural tendency of winning the bids. However, this situation was corrected in NELP-VI and the companies have bid in general with reasonable work programme. With the extension policy of the Government in place, the maximum time frame for completion of MWP has been established. Since most of the relinquishment of the blocks relates to aggressive work programme, they may not truly reflect the actual performance/capability of the operator.</p> <p>Further, delays may also take place on genuine grounds such as tight rig market, logistically/ technically difficult areas etc. Here it may be noted that NOCs in the past have picked up blocks which were either frontier blocks or perceived to be unprospective blocks in the interest of exploration in the country. Whereas, private companies have bid for the lucrative blocks only on commercial consideration.</p>	<p>In view of the above and maintain transparency and fairness in the bidding process, it is strongly suggested that this provision on past performance should not be considered for incorporation in NELP-VI round. DGH should come out with an objective criterion on the issue of penalty for non-completion or partial completion of MWP in acreage before making it a performance measure criterion. ONGC would like this criterion to be dropped totally. Companies come out of low prospective acreages by paying financial penalty to avoid futile use of national resources. By making this a performance measure criterion, they can not be penalized from bidding for acreages which are in other prospective basins/areas.</p>
Issue 18			
w Co ntr acti ng Met ho dol og	1	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	2	No comments	
	3	The suggestions regarding 'Technical Evaluation Contract (TEC)' and 'Promote License' are welcome but need thorough scrutiny regarding their applicability in the Indian E&P scenario.	Any new contracting methodology should be forward-looking and applicable in the Indian context and should aim at encouraging the small and new players.
	4	<p>The PSC document should remain a lead responsibility of DGH/MOPNG as the nodal agency. However, also strongly recommend the addition of other signatories as follows:</p> <p>a) State From the respective Block's State, included in an addendum, should be the approved PEL or at a minimum a guideline for PEL requirements with a guaranteed schedule (reference recent guideline documents issued by DGH, an excellent step).</p> <p>b) MOEF (Reference your article 3.16)</p> <p>i. included as an addendum, specific approved clearance for seismic (or other surveys) within the respective block</p> <p>ii. additionally as an addendum, standard terms of reference (TOR), should be included specific to exploratory drilling in the specific block (this would greatly shorten the E.C. process).</p> <p>c) MOF Included as a clarification addendum, should be explicit guidelines pertaining to (but not limited to):</p> <p>i. what would qualify for the tax holiday e.g. oil and gas (in dispute at present due to difference in interpretation of mineral oil) wells, facilities etc. Also a guideline on how to apply for such exemption,</p> <p>ii. what is required from the contractor(s) on the apparent necessity of tabling the PSC contract and the amendments thereof in the Parliaments,</p> <p>iii. other clarifications as deemed necessary.</p>	
	5	(PSC terms-Royalty in crude oil & Natural gas) Royalty is payable on wellhead value of production for onshore area at the rate of 12.5% for oil and 10% for natural gas.	The definition of wellhead value should be clarified.

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	6	No comments	
	7	No comments	
	8	No comments	
	9	The new change introduced in the NELP-VI model contract requires investors to provide bank and performance guarantees regardless of their financial and technical capability and status. This change has made the contract (relative to earlier models) less investor – friendly and does not reflect the international norm.	It is very uncommon for foreign investors to provide such guarantees. The financial capability of bidders should be a qualifying criterion.
Issue 19			
Bidding % Government Take in NELP VI favours PSUs who are on both sides of the equation.	1	Biddable parameters should be designed in a way that they do not create an advantage for government owned entities (PSUs) versus privately held companies.	It tends to favour PSUs who have significant government ownership.
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 20			
Consortium/ Partnership	1	No comments	
	2	We agree with the concept of awarding points on basis of ratio of Indian/Foreign partnership. For some areas e.g. deep water, frontier or difficult technology e.g. thrust belt we would suggest a compulsory minimum foreign partnership %.	
	3	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	4	No comments	
	5	No comments	
	6	No comments	
	7	This proposal of DGH has not specified any minimum bench mark for a foreign company, which will qualify for upto 10 marks. For example, there may be a small Indian company, which may either tie up with a very small foreign company or its subsidiary registered in a foreign country will be benefited by additional 10 marks, without adding any significant value to the technical capability. Whereas, a major company bidding alone may be deprived of vital 10 marks or it will be at par with small companies if it joins hands with a major Indian Company.	The above proposal appears to be contrary to the Government policy for NELP allowing upto 100% foreign participation in NELP. Our company recommends that a clear-cut pre-defined yardstick should be in place to measure the soundness of E&P capability and technological strength of foreign partner for awarding these points.
	8	No comments	
	9	No comments	
Issue 21			
Article 1: Definitions & Article 17.4	1	No comments	
	2	No comments	
	3	The definition of "Well-Head Value" may be inserted between Articles 1.89 & 1.90, in view of the reference made in the Article 17. The methodology for calculating the "well-head value" of Crude Oil and Natural Gas may be provided in the PSC as an attachment for avoidance of any doubt.	Royalty is payable by the companies as percentage of the "well-head value". In the absence of a clear definition of "well-head value", the different companies may adopt different definitions. During production phase, the delay in defining the "well-head value" may have financial implications.
	4	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 22			
Article 3.5	1	No comments	
	2	No comments	
	3	The following may be inserted in this Article: 'If there is delay(s) during any Exploration Phase due to any reason beyond the control of the Contractor or the reason(s) which cannot be attributed to the Contractor and where such delay(s) has been duly recognized by the Management Committee, then period of such delay(s) shall be automatically added to the duration of the relevant phase.'	The contractor should not be held responsible for delays beyond his control.
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 23			
Article 13.1	1	No comments	
	2	No comments	
	3	This Article may be modified as suggested below: "Petroleum used for internal consumption for Petroleum Operations, flared, saved and sold from the Contract Area shall be measured by methods and appliances	Since the Management Committee consists of two Government representatives,

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		generally accepted and customarily used in modern oilfield and petroleum industry practices and approved by the Management Committee”	approval by the Government may be a duplication and time consuming process.
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 24			
Article 13.4	1	No comments	
	2	No comments	
	3	This Article may be modified in line with Article 13.1, as suggested below: “The Contractor shall undertake to measure the volume and quality of the Petroleum Produced and Saved from the Contract Area at the agreed measurement point consistent with generally accepted modern oilfield and petroleum industry practices with the frequency and according to procedures agreed pursuant to Article 13.3. The Contractor shall not make any alteration in the agreed method or procedures for measurement or to any of the approved appliances used for that purpose without the written consent of the Management Committee and the Government.”	Same as Article 13.1
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
Issue 25			
Article 16.4.1	1	No comments	
	2	No comments	
	3	This Article may be modified as suggested below: “The Government shall have the option to take its entitlement to Profit Petroleum other than “ANG” or “NANG” either in cash or in kind in any Year. In case of “ANG” or “NANG”, as the case may be, the Government shall have the option to take its entitlement to Profit Petroleum in cash or in kind and such option shall be exercised at interval of every five (5) Years from the commencement of first Commercial Production from the Contract Area., which option shall be exercised in accordance with Article 16.4.2.”	The right of the Government to vary its option every year in case of crude oil/ condensate and every 5 years in case of ANG and NANG may prevent the Contractor from realizing best value by sale of the Petroleum as the available quantities may be undeterminable for long term sale and purchase contracts. Particularly in the case of Gas, such flexible option may not be workable.
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 26			
Article 16.4.2	1		
	2		
	3	This Article may be modified in line with Article 16.4.1 as suggested below: “In accordance with the Article 16.4.1, The the Government shall exercise such option by giving a written notice to the Contractor not later than thirtieth (30th) June in the preceding Year in which the entitlement is due thirty (30) days after	Same as Article 16.4.1

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
		the approval of the Development Plan by the Management Committee or the Government, as the case may be. Once the Government has exercised its option, the same shall continue unless the Government informs the Contractor otherwise for the entire period of the Contract.”	
	4	No comments	
	5	No comments	
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 27			
Article 2.10	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	The GOI proposal to take profit gas in kind and not in cash is detrimental for any investor.	Accurate forecasting of the volume of gas to the midstream and downstream customers is impractical.
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 28			
Article 2.11	1	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
(Provision of assignment.)	2	No comments	
	3	No comments	
	4	No comments	
	5	The definition of (dimmed consent) should be explained more.	Although the clause is applicable, many times it has not been implemented in the right spirit.
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 29			
Article 2.12 (Bid evaluation criteria-MWP)	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	The weight age to operator ship, acreage hold age, company accretion and annual production should be taken off.	<ul style="list-style-type: none"> • Full weight age should be given to geological assessment and work programme designed inline with geological assessment. • If after evaluation of a block in the first phase period, it is found that the minimum work programme is not feasible, no penalty should be
	6	No comments	
	7	No comments	
	8	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	9	No comments	
Issue 30			
Article 2.14 (Clearances by operator)	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	Many statutory clearances related to environment, defence, forest etc should be obtained by DGH before offering the blocks for bidding.	If this is not done time limits specified in the PSC should be extended taking into account the resultant time loss delays in the government approvals.
	6	No comments	
	7	No comments	
	8	No comments	
	9	No comments	
Issue 31			
	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	generally try to simplify the bid evaluation/appraisal process in order to speed-up attribution to the winning bid as soon as possible after submissions.	
	7	No comments	
	8	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
	9	No comments	
Issue 32			
PSC Issues:	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	No comments	
	7	<p>1. New Extension Policy to be linked with the PSC</p> <p>2. Article 30 on Arbitration: Re-introduction of the following clause which was discontinued/deleted from NELP-IV to NELP-VI PSC: "If the circumstance or circumstances that would otherwise result in termination are the subject matter of proceedings under Article 33, then termination shall not take place so long as such proceedings continue and thereafter may only take place when and if consistent with the arbitral award."</p> <p>3. This is required in view of some recent termination of the contracts and deletion of this Article gives unilateral power to the Government and is against the interest of the Contractor.</p> <p>4. If the whole contract area is covered by 3D seismic survey under the MWP, the condition of 2D seismic API under Mandatory Work Programme to be waived off.</p> <p>5. 4. Article 15.13 of NELP-V PSCs and also proposed to be incorporated in NELP-VI PSCs should be deleted from the MPSC for NELP-VII, as it is against the industry practices and exception to the established norm of review/approval of the budget and cost recovery by MC.</p>	
	8	No comments	
	9	No comments	

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
Issue 33			
Acreage Holding: It has been proposed to reduce the weightage in acreage holding from 4 points in NELP-VI to 2 points in NELP-VII saying that “operators holding huge non-operating acreage get undue advantage”.	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	No comments	
	7	The term “non-operating” or “non-performing” is totally ambiguous. As long as the agreed work programme is being implemented it cannot be termed as a non operating acreage. The intent of the Government appears to be to attract major E&P players including foreign players, naturally by virtue of working in many countries, they would have large acreage holding. In fact, companies having acreage holding in various basins in different kind of geological and geographical set-ups are likely to have rich and varied experience which should be encouraged.	ONGC strongly disagrees with this dilution of weightage and would like the present format to continue and the point should be proportionately increased in line with the percentage weightage increase in ‘Technical Capability’.
	8	No comments	
	9	No comments	
Issue 34			
Annual Accretion:	1	No comments	
	2	No comments	
	3	No comments	
	4	No comments	
	5	No comments	
	6	No comments	
	7	It is not understood why 1P reserves is proposed to be considered for bid evaluation purpose, while for other purposes such as sale/purchase of reserves,	In International Petroleum industry practices, 2P reserves are taken

Issue	Company	Suggestion/ Comment, in brief	Reasons for this suggestion
<p>i) It is apprehended that as it is difficult to get authentic 2P figures, “only 1P reserves certified by one of the recognised agencies authorised by DGH will be considered”. It has also been suggested to increase the weightage under this head.</p> <p>ii) The weightages for reserve accretion has been proposed to be substantially increased.</p>		<p>Development Plans, financing of projects etc are considered on the basis of 2P reserves. While it is agreeable that accretion is a direct measure of exploration effort, it is emphasized that initial exploration does not lead to 1P reserves. In fact it leads to even 3P reserves not to talk of 2P. In most of the cases it takes a few years before 1P reserves is established. As there is an industry standard definition of 2P reserves, the agencies identified by DGH should have no problem in certifying the same.</p> <p>While onshore and shallow water exploration and production activity in India are old and have matured significantly, exploration activities in deep water are new phenomena and started very recently. Therefore, most of the acreages in India are currently in the initial stage of exploration. Keeping in view this fact, weightage for reserve accretion for deep water block should be maintained as per NELP-VI criteria.</p>	<p>for the purpose of asset farm-in and farm-out transaction and formulating Development Plans. Further 2P reserves are auditable by international agencies. Therefore, 2P reserves is more in line with the international practices and adopted for various practices.</p> <p>ONGC would strongly suggest considering in-place accretion rather than reserves considering the above factors. In the worst case, the present system of 2P reserves accretion, which is also in line with international practices should continue.</p>
	8	No comments	
	9	No comments	