

## **Draft Policy for determination of cost of unfinished Minimum Work Programme for Exploration Blocks**

1. The Government has signed a number of Production Sharing Contracts (PSCs) during pre-NELP and NELP rounds. These PSCs provide commitment on the part of Contractor to carry out minimum work programme (MWP), as specified in various exploration phases. The PSCs signed till NELP V envisage three (3) exploration phases and those signed under NELP VI consist of two exploration phases. The work programme bid by the companies is stipulated as MWP in each of the exploration phases of the respective PSCs. Also under NELP VI, the Minimum Work programme includes the mandatory work programme in form of 2-D seismic programme, which was one of the qualifying criteria for the acceptance of the bids. At the end of every exploration phase, the PSC Contractors have a walk-out option, which if exercised would terminate the PSC and the Block would stand relinquished to the Government.

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

pursuant to the provisions of the PSCs or under the extension policy formulated by the Government.

3. In case the contractors do not fulfill the work programme within the stipulated period as the case may be, it is required to pay money for the unfinished work programme, if any, to the Government in terms of the respective provisions of the PSC. As per the standard clause in various PSCs, “the Contractor undertakes to complete the mandatory work programme and minimum work programme. In the event the Contractor fails to fulfill the said mandatory or minimum work programme by the end of relevant exploration phase or early termination of the Contract by the Government by any reason what so ever, each Company constituting the Contractor shall pay to the Government within 60 days following the end of the relevant exploration phase or early termination of the Contract, as may be the case, its participating share for an amount which when evaluated in terms of Minimum Work Programme specified for a relevant exploration phase is equal to the amount which would be required to complete the said Minimum Work Programme. For determination of this amount, available relevant information including the budget and modern oil field and petroleum industry practices may be taken into account”.

4. In the past, there have been a few cases where the contractors have relinquished exploration blocks and deposited money for the unfinished minimum work programme with the Government. In such cases, it has been observed that the contractors have been using different methodologies for computing the cost of the said unfinished minimum work programme. In order to streamline the determination of cost of unfinished

minimum work programme for exploration blocks, the Government has decided to put in place a policy for the same.

5. While deciding such policy with regard to determination of amounts towards unfinished work programme, the spirit behind inclusion of the article in the PSC needs to be kept in mind. The relevant article in the PSC invariably provides that in case the MWP is not completed, the Contractor is required to pay the Government an amount which is equal to the amount which would be required to complete the said un-finished work programme. Further, it also provides that for determination of these amounts, available relevant information including the budget and modern oil field and petroleum industry practices may be taken into account. Hence, the spirit behind collection of this money by the Government is to create a pool for the Government to undertake additional exploration work in the country.

6. Accordingly, the following draft policy for determination of cost of unfinished minimum work programme for exploration blocks is proposed:

1. The cost of Unfinished Work Programme relating to an exploratory well shall be considered on dry well principle.
2. The well depth committed by companies in MWP shall be considered for purposes of computing the cost of un-finished well as this has been the criteria for evaluating the bids and award of the blocks and is also objective.
3. Well cost shall be calculated by computing the number of days required for drilling various stages as per the well construction / casing policy. The Geo-Technical order of the well and data of related wells shall be taken into consideration for estimation of drilling time. An extra provision of 10% shall be added towards Non Productive Time (NPT) in drilling due to interruptions/ shut down etc.

4. The well design for unfinished wells should be similar to the wells drilled in the same Block. If no wells are drilled in the same Block, the well design should be similar to wells in neighbouring blocks.
5. The day rates shall be considered from the valid running contracts for Rigs, Services and Consumables. In case the computed rates of the unfinished work programme are lower than the cost data bank maintained by DGH, the amount towards unfinished work programme would be recovered from Companies on basis of cost data of DGH, which is duly approved by Government.
6. In case the contractors are using captive rigs, hire charges for rigs and other services shall be charged on basis of current prevailing market rates.
7. Cost of each activity of unfinished work programme shall be computed as per format given in Appendix-H of model PSC.
8. 2-D & 3-D seismic costs shall be computed based on prevailing rates in the area for acquisition, processing and interpretation and shall not, in any case, be less than the cost data of DGH which is duly approved by Government.
9. The competent authority to approve the final amount toward unfinished work programme shall be the Government based on the proposal received from DGH.
10. In blocks, where provisional payments have already been made by the contractors to the Government, the amounts for unfinished work programme will be calculated and finalized in accordance with this

proposed policy and the contractors will, accordingly, be asked to make the balance payments, if any, to the Government.

11. Any consequential issue, arising out of the implementation of this policy, will be decided by the Ministry of Petroleum & Natural Gas.