

Ministry of Petroleum & Natural Gas
ONG.I

This Ministry is in the process of finalization of Model Production Sharing Contract (MPSC) for NELP-VII. The changes proposed to be made in the Accounting procedure and additional changes in MPSC are hosted on the website of the Ministry with the request for the feedback from the stakeholders to be received by 30th September, 2007. The stakeholders are requested to give their feedback on the following email IDs :-

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Proposed changes in Accounting Procedure & MPSC for NELP-VII.

Reference	NELP VI Clause	PROPOSED CLAUSE for NELP VII
AP 1.1	<p><u>Purpose</u> Generally, the purpose of this Accounting Procedure is to set out principles and procedures of accounting, which will enable the Government of India to monitor effectively the Contractor's costs, expenditures, production and income so that the Government's entitlement to Profit Petroleum can be accurately determined pursuant to the terms of the Contract. More specifically, the purpose of the Accounting Procedure is to:</p> <ul style="list-style-type: none"> -classify costs, and expenditures to define which costs and expenditures shall be allowable for cost recovery and profit sharing and participation purposes; -specify the manner in which the Contractor's accounts shall be prepared and approved; and - Address numerous other accounting related matters. <p>This Accounting Procedure is intended to apply to the provisions of the Contract and is without prejudice to the computation of income tax under applicable provisions of the Income-Tax Act, 1961, as amended.</p>	<p><u>Purpose</u> Generally, the purpose of this Accounting Procedure is to set out principles and procedures of accounting, which will enable the Government of India to monitor effectively the Contractor's costs, expenditures, production and income so that the Government's entitlement to Profit Petroleum can be accurately determined pursuant to the terms of the Contract. More specifically, the purpose of the Accounting Procedure is to:</p> <ul style="list-style-type: none"> -classify costs, expenditures and income and to define which costs and expenditures shall be allowable for cost recovery and profit sharing and participation purposes; -specify the manner in which the Contractor's accounts shall be prepared and approved; and -Address numerous other accounting related matters. <p>This Accounting Procedure is intended to apply to the provisions of the Contract and is without prejudice to the computation of income tax under applicable provisions of the Income-Tax Act, 1961, as amended.</p>
AP 1.4.1	<p>Within ninety (90) days of the Effective Date of the Contract, the Contractor shall submit to and discuss with the Government a proposed outline of charts of accounts, operating records and reports, which outline shall reflect each of the categories and sub-categories of costs and income specified in Sections 2 and 3 and shall be in accordance with generally accepted standards and recognized accounting systems and consistent with normal</p>	<p>Within ninety (90) days of the Effective Date of the Contract, the Contractor shall submit to and discuss with the Government a proposed outline of charts of accounts, operating records and reports, which outline shall reflect each of the categories and sub-categories of costs and income specified in Sections 2 and 3 and shall be in accordance with generally accepted accounting standards</p>

	<p>petroleum industry practice and procedures for joint venture operations.</p> <p>Within ninety (90) days of receiving the above submission, the Government shall either provide written notification of its approval of the proposal or request, in writing, revisions to the proposal.</p> <p>Within one hundred and eighty (180) days from the Effective Date of the Contract, the Contractor and the Government shall agree on the outline of charts of accounts, records and reports which shall also describe the basis of the accounting system and procedures to be developed and used under this Contract. Following such agreement, the Contractor shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts, records and reports and allow the Government to examine the manuals and to review procedures which are, and shall be, observed under the Contract.</p>	<p>and recognized accounting systems and consistent with normal petroleum industry practice and procedures for joint venture operations.</p> <p>Within ninety (90) days of receiving the above submission, the Government shall either provide written notification of its approval of the proposal or request, in writing, revision to the proposal. Within one hundred and eighty (180) days from the Effective Date of the Contract, the Contractor and the Government shall agree on the outline of charts of accounts, records and reports which shall also describe the basis of the accounting system and procedures to be developed and used under this Contract. Following such agreement, the Contractor shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts, records and reports and allow the Government to examine the manuals and to review procedures which are, and shall be, observed under the Contracts.</p>
1.4.2.1	-	<p>The Contractor shall prepare and maintain memorandum joint venture accounts which shall be adapted from Schedule VI of the Companies Act, 1956 to indicate the recoverable costs, value of petroleum produced and saved, cost petroleum, profit petroleum, etc.</p>
1.4.2.2	<p>Notwithstanding the generality of the foregoing, the contractor shall make regular Statements relating to the Petroleum Operations as follows:</p> <p>(i) Production Statement (see Section 5 of this Accounting Procedure).</p> <p>(ii) Value of Production and Pricing Statement (see Section 6 of this Accounting Procedure).</p> <p>(iii) Statement of Costs, Expenditures and Receipts (see Section</p>	<p>The Contractor shall make regular Statements relating to the Petroleum Operations as follows:</p> <p>(i) Production Statement (see Section 5 of this Accounting Procedure).</p> <p>(ii) Value of Production and Pricing Statement (see Section 6 of this Accounting Procedure).</p> <p>(iii) Statement of Costs, Expenditures and Income (see Section 7 of this Accounting Procedure).</p>

	<p>7 of this Accounting Procedure).</p> <p>(iv) Cost Recovery Statement (see Section 8 of this Accounting Procedure).</p> <p>(v) Profit Sharing Statement (see Section 9 of this Accounting Procedure)</p> <p>(vi) Local Procurement Statement (see Section 10 of this Accounting Procedure)</p> <p>(vii) End of Year Statement (see Section 11 of this Accounting Procedure).</p> <p>(viii) Budget Statement (see Section 12 of this Accounting Procedure).</p>	<p>(iv) Cost Recovery Statement (see Section 8 of this Accounting Procedure).</p> <p>(v) Profit Sharing Statement (see Section 9 of this Accounting Procedure)</p> <p>(vi) Local Procurement Statement (see Section 10 of this Accounting Procedure)</p> <p>(vii) End of Year Statement (see Section 11 of this Accounting Procedure).</p> <p>(viii) Budget Statement (see Section 12 of this Accounting Procedure).</p>
1.4.3	<p>All reports and Statements shall be prepared in accordance with the Contract and the laws of India and, where there are no relevant provisions in either of these, in accordance with generally accepted practices in the international petroleum industry.</p>	<p>All reports and Statements shall be prepared in accordance with the Contract and the laws of India and, where there are no relevant provisions in either of these, in accordance with generally accepted accounting practices in the international petroleum industry.</p>
1.6.1	<p>For conversion purposes between United States Dollars and Indian Rupees or any other currency, the monthly average of the daily mean of the buying and selling rates of exchange as quoted by the state bank of India (or any other financial body as may be mutually agreed by the parties) for the month in which the revenues, costs, expenditures, receipts or income are recorded, shall be used. However, in the case of any single non-US Dollar transaction in excess of the equivalent of fifty thousand (50000) US Dollars, the conversion into US Dollars shall be performed on the basis of the average of the applicable exchange rates for the day on which the transaction occurred.</p>	<p>For conversion purposes between United States Dollars and Indian Rupees or any other currency, the applicable exchange rate between the reporting currency and foreign currency at the date of the transaction, or any such rate in accordance with Accounting Standard (AS) 11 on “Accounting for the Effects of Changes in Foreign Exchange Rates” issued by the Institute of Chartered Accountants of India, shall be used.</p>
1.9.1	<p>Without prejudice to statutory rights, the Government, upon at least twenty (20) Business Days advance written notice to the Contractor, shall have the right to inspect and audit, during normal business hours, all records and documents supporting costs, expenditures, expenses, receipts and income, such as the Contractor's accounts, books, records, invoices, cash vouchers, debit notes, price lists or similar documentation with respect to the Petroleum Operations</p>	<p>Without prejudice to statutory rights, the Government, upon at least twenty (20) Business Days advance written notice to the Contractor, shall have the right to inspect and audit, during normal business hours, all records and documents supporting costs, expenditures, expenses, and income, such as the Contractor's accounts, books, records, invoices, cash vouchers, debit notes, price lists or similar documentation</p>

	conducted hereunder in each Year, within two (2) years (or such longer period as may be required in exceptional circumstances) from the end of such Year.	with respect to the Petroleum Operations conducted hereunder in each Year, within three (3) years (or such longer period as may be required in exceptional circumstances) from the end of such Year.
1.9.2	The Government may undertake the conduct of the audit either through its own representatives or through a qualified firm of recognized chartered accountants, registered in India or a reputed consulting firm, appointed for the purpose by the Government and the costs of audit in case of Government auditor(s) shall be borne by the Government, where as for outside auditor(s), this shall be borne by the Contractor as a General and Administrative Cost.	The Government may undertake the conduct of the audit either through its own representatives or through a firm of chartered accountants, registered in India or a reputed consulting firm, appointed for the purpose by the Government and the costs of audit in case of Government auditor(s) shall be borne by the Government, where as for outside auditor(s), this shall be borne by the Contractor as a General and Administrative Cost.
1.9.6	All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions under Section 1.9.5 shall be promptly made in the Contractor's accounts and any consequential adjustments to the Government's entitlement to Petroleum shall be made within thirty (30) days therefrom.	All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions under Section 1.9.5 shall be promptly made in the Contractor's accounts and any consequential adjustments to the Government's entitlement to Petroleum shall be made within thirty (30) days therefrom along with interest due for late payment under Section 1.7.3.
1.11	-	Government may fix or revise the format for reporting the annual accounts and statements required under Section 1.4.2.
2.1	<u>Segregation of Costs</u> segregated in accordance with the purposes for which such expenditures are made. All costs and expenditures allowable under section 3, relating to Petroleum Operations shall be classified, defined and allocated as set out below in this Section.	<u>Segregation of Costs</u> Costs shall be segregated in accordance with the purposes for which such expenditures are made. All costs and expenditures relating to Petroleum Operations allowable for cost recovery under Article 15 , shall be classified, defined and allocated as set out below in this Section.
2.2.2	Core hole drilling and water Well drilling.	Core hole drilling and water Well drilling drilled as part of exploration Operations.
2.2.3	Labour, materials, supplies and services used in drilling Wells with the object of finding Petroleum or in drilling Appraisal Wells	Labour, materials, supplies and services used in drilling Exploration Wells with the object of finding Petroleum or

	provided that if such Wells are completed as producing Wells or injection Well for enhancing Oil recovery, the costs of completion thereof shall be classified as Development Costs.	in drilling Appraisal Wells provided that if such Wells are completed as producing Wells or injection Well for enhancing Oil recovery, the costs of completion thereof shall be classified as Development Costs.
2.2.7	Any other expenditures incurred in the search for Petroleum not covered under Sections 2.3 or 2.4.	Any other expenditures incurred for Exploration Operations in the search for Petroleum not covered under Sections 2.3 or 2.4.
2.4	<u>Production Costs</u> Production Costs are expenditures of incurred on Production Operations after the start of production from the Field (which are other than Exploration and Development Costs). The balance of General and Administrative Costs and Service Costs not allocated to Exploration Costs or Development Costs shall be allocated to Production Costs.	<u>Production Costs</u> Production Costs are expenditures of revenue nature incurred on Production Operations after the start of production from the Field (which are other than Exploration and Development Costs). The balance of General and Administrative Costs and Service Costs not allocated to Exploration Costs or Development Costs shall be allocated to Production Costs.
2.5	<u>Service Costs</u> Service Costs are direct and indirect expenditures incurred in support of Petroleum Operations in the Contract Area, including expenditures on warehouses, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, community and recreational facilities and furniture and tools and equipment used in these activities. Service costs in any year shall include the costs incurred in such year to purchase and/or construct the said facilities as well as the annual costs of maintaining and operating the same, each to be identified separately. All Service Costs shall be regularly allocated as specified in Sections 2.2.5, 2.3.5 and 2.4 to Exploration Costs, Development Costs and Production Costs and shall be separately shown under each of these categories. Where Service Costs are made in respect of shared facilities, the basis of allocation of costs to Petroleum Operations hereunder shall be specified.	<u>Service Costs</u> Service Costs are direct and indirect expenditures incurred in support of Petroleum Operations in the Contract Area, including expenditures on warehouses, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, and furniture and tools and equipment used in these activities. All Service Costs shall be allocated as specified in Sections 2.2.5, 2.3.6 and 2.4 to Exploration Costs, Development Costs and Production Costs and shall be separately shown under each of these categories. Where Service Costs are made in respect of shared facilities, the basis of allocation of costs to Petroleum Operations hereunder shall be specified.

2.6.1	main office, field office and general administrative expenditures in India including supervisory, accounting and employee relations services;	expenditure related to main office, field office and general administrative expenditures in India including supervisory, accounting and employee relations services;								
2.6.2	<p>an annual overhead charge for services rendered by the parent company or an Affiliate to support and manage Petroleum Operations under the Contract, and for staff advice and assistance including financial, legal, accounting and employee relations services, but excluding any remuneration for services charged separately under this Accounting Procedure, provided that:-</p> <p>(i) for the period from the Effective Date until the date on which the first Development Plan under the Contract is approved by the Government, this annual charge shall be verifiable expenditure limited to 1% of Contract Costs. But shall in no event be greater than the following percentages of the total Contract Costs incurred during the Contract Year in or in connection with the Contract Area and qualifying for recovery pursuant to Section 3:</p> <table border="0" data-bbox="359 862 1245 1203"> <tr> <td style="text-align: right;">Contract costs in any Contract year (in million US\$)</td> <td style="text-align: center;">Annual overhead charge</td> </tr> <tr> <td style="text-align: right;">0-2</td> <td style="text-align: center;">3 %</td> </tr> <tr> <td></td> <td style="text-align: center;">Over 2-5-US \$ 60,000 + 2% of Contract Costs in excess of US \$ 2 million</td> </tr> <tr> <td></td> <td style="text-align: center;">Over 5-US \$ 120,000 + 1% of Contract Costs in excess of US \$ 5 million</td> </tr> </table> <p>(ii) from the date on which the first Development Plan is approved, the charge shall be an amount or rate to be agreed on between the Parties and stated in the Development Plan.</p>	Contract costs in any Contract year (in million US\$)	Annual overhead charge	0-2	3 %		Over 2-5-US \$ 60,000 + 2% of Contract Costs in excess of US \$ 2 million		Over 5-US \$ 120,000 + 1% of Contract Costs in excess of US \$ 5 million	<p>an annual overhead charge for services rendered by the parent company or an Affiliate to support and manage Petroleum Operations under the Contract, and for staff advice and assistance including financial, legal, accounting and employee relations services, but excluding any remuneration for services charged separately under this Accounting Procedure, provided that:-</p> <p>(i) for the period from the Effective Date until the date on which the first Development Plan under the Contract is approved by the Government, this annual charge shall be verifiable expenditure limited to 1% of Contract Costs.</p> <p>(ii) from the date on which the first Development Plan is approved, the charge shall be verifiable expenditures restricted to an amount or rate to be agreed on between the Parties and stated in the Development Plan.</p>
Contract costs in any Contract year (in million US\$)	Annual overhead charge									
0-2	3 %									
	Over 2-5-US \$ 60,000 + 2% of Contract Costs in excess of US \$ 2 million									
	Over 5-US \$ 120,000 + 1% of Contract Costs in excess of US \$ 5 million									
2.6.3	All General and Administrative Costs shall be regularly allocated as specified in Sections 2.2.5, 2.3.5 and 2.4 to Exploration Costs, Development Costs and Production Costs respectively, and shall be	All General and Administrative Costs shall be allocated as specified in Sections 2.2.5, 2.3.6 and 2.4 to Exploration Costs, Development Costs and Production Costs								

	separately shown under each of these cost categories.	respectively, and shall be separately shown under each of these cost categories.
2.7		<p><u>Income</u> Petroleum produced and saved shall be classified to segregate income from gas, oil and condensate and shall include closing stock. Petroleum produced and saved shall be valued as per Article 19 and 21. Other categories of income shall be appropriately classified so as to calculate the Profit Petroleum correctly.</p>
2.8		<p>Costs, expenditure and income shall be accounted on accrual basis as per generally accepted accounting standards.</p>
3.1	<p><u>Costs Recoverable and Allowable Without Further Approval of the Government</u> Costs incurred by the Contractor on Petroleum Operations as per reviewed or approved Work Programme and Budget by the Management Committee as the case may be, pursuant to the Contract as classified under the headings referred to in Section 2 shall be allowable for the purposes of the Contract except to the extent provided in Section 3.2 or elsewhere in this Accounting Procedure, and subject to audit, as referred to in Articles 25.4.1 to 25.4.4 and Article 25.5, as provided for herein. Further in case of variation in costs over the reviewed/approved Work Programme and Budget, as the case may be, or re-appropriation of costs, shall be submitted to the Management Committee for review/approval, as the case may be, within thirty (30) days from the end of relevant financial year and subject to the audit and other provisions of the Contract, such costs shall be allowable for the purposes of the Contract.</p>	<p><u>Costs Recoverable and Allowable Without Further Approval of the Government</u> Costs incurred by the Contractor on Petroleum Operations as per reviewed or approved Work Programme and Budget by the Management Committee as the case may be, pursuant to the Contract as classified under the headings referred to in Section 2 shall be allowable for the purposes of the Contract except to the extent provided in Section 3.2 or elsewhere in this Accounting Procedure, and subject to audit, as referred to in Articles 25.4.1 to 25.4.4 and Article 25.5, as provided for herein. Further in case of variation in costs over the reviewed/approved Work Programme and Budget, as the case may be, or re-appropriation of costs, shall be submitted to the Management Committee for review/approval, as the case may be, and subject to the audit and other provisions of the Contract, such costs shall be allowable for the purposes of the Contract.</p>
3.1.1	<p><u>Surface Rights</u> All direct costs necessary for the acquisition, renewal or</p>	

	<p>relinquishment of surface rights acquired and maintained in force for the purposes of the Contract except as provided in Section 3.1.9.</p>	
<p>3.1.2</p>	<p><u>Labour and Associated Labour Costs</u> a) <u>Contractor's locally recruited employees based in India</u></p> <p>Costs of all the Contractor's locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Contract in India. Such costs shall include the costs of employee benefits and Government benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within India of the employee and such members of the employee's family as per the personnel policy of the employer as required by law or customary practice in India. If such employees are engaged in other activities in India, in addition to Petroleum Operations, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.</p> <p>(b) <u>Assigned Personnel</u> Costs of salaries and wages, including bonuses, of the Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations under the Contract, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro rata portion of applicable salaries, wages, and other costs, as specified in Sections 3.1.2(c), (d), (e), (f) and (g), shall be charged and the basis of such pro rata allocation shall be specified.</p> <p>(c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Section 3.1.2(b) above.</p>	

	<p>(d) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of India which are applicable to the Contractor's cost of salaries and wages chargeable under Section 3.1.2(b) above.</p> <p>(e) The Contractor's cost of established plans for employees' group life insurance, hospitalization, pension, retirement and other benefit plans of a like nature customarily granted to the Contractor's employees provided, however, that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Section 3.1.2(b) above.</p> <p>(f) Personal income taxes where and when they are paid by the Contractor to the Government of India for the employee, in accordance with the Contractor's standard personnel policies.</p> <p>(g) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their dependent family and personal effects, assigned to India whose salaries and wages are chargeable to Petroleum Operations under Section 3.1.2(b) above.</p>	
	<p>Transportation cost as used in this Section shall mean the cost of freight and passenger service and any accountable incidental expenditures related to transfer travel and authorized under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities which have benefited from the personnel concerned.</p>	
3.1.3	<p><u>Transportation Costs</u></p> <p>The reasonable cost of transportation of equipment, materials and supplies within India and from outside India to India</p>	

	<p>necessary for the conduct of Petroleum Operations under the Contract, including directly related costs such as unloading charges, dock fees and inland and ocean freight charges.</p>	
<p>3.1.4</p>	<p><u>Charges for Services</u></p> <p>(i) <u>Third Parties</u></p> <p>The actual costs of contract services, services of professional consultants, utilities and other services necessary for the conduct of Petroleum Operations under the Contract performed by third parties other than an Affiliate of the Contractor, provided that the transactions resulting in such costs are undertaken pursuant to Section 1.8 of this Accounting Procedure.</p> <p>(ii) <u>Affiliates of Contractor</u></p> <p>a) <u>Professional and Administrative Services and expenses</u></p> <p>Cost of professional and administrative services provided by any Affiliate for the direct benefit of Petroleum Operations, including, but not limited to, services provided by the production, exploration, legal, financial, insurance, accounting and computer services divisions other than those covered by section 3.14 (ii)(b) which the Contractor may use in lieu of having its own employees. Charges shall be equal to the actual cost of providing their services, shall not include any element of profit and shall not be any higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and will be fair and reasonable in the light of prevailing modern oilfield and petroleum industry practices.</p> <p>(b) <u>Scientific or Technical Personnel</u></p> <p>Cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis. Charges therefore shall not exceed charges for</p>	<p>Services provided by <u>Affiliates of Contractor</u></p> <p>(a) Cost of professional and administrative services provided by any Affiliate for the direct benefit of Petroleum Operations, including, but not limited to, services provided by the production, exploration, legal, financial, insurance, accounting and computer services divisions which the Contractor may use in lieu of having its own employees. Charges shall be equal to the actual cost of providing their services, shall not include any element of profit and shall not be any higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and will be fair and reasonable in the light of prevailing modern oilfield and petroleum industry practices.</p> <p>Unless the work to be done by such personnel is covered by an Approved Budget and Work Programme, the Contractor shall not authorize work by such personnel without approval of the Management Committee.</p> <p>(b) Equipment, facilities and property owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment, facilities and property on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to</p>

	<p>comparable services currently provided by outside technical service organizations of comparable qualifications. Unless the work to be done by such personnel is covered by an Approved Budget and Work Programme, the Contractor shall not authorize work by such personnel without approval of the Management Committee.</p> <p>(c) Equipment, facilities and property owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment, facilities and property on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the Government.</p>	<p>separate agreement with the Government.</p>
<p>3.1.5</p>	<p>Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio, satellite link and microwave facilities between the Contract Area and the Contractor's nearest base facility.</p>	
<p>3.1.8 (i)</p>	<p>So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by the Contractor for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Material and equipment held in inventory shall only be charged to the accounts when such material is removed from inventory and used in Petroleum Operations. Costs shall be charged to the accounting records and books based on the “First-in, First-out method”.</p>	<p>So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by the Contractor for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Material and equipment held in inventory shall only be charged to the accounts when such material is removed from inventory and used in Petroleum Operations. Costs shall be charged to the accounting records and books based on the Cost Formulas specified in Accounting Standard (AS) 2 on ‘Valuation of Inventories’ as issued by the Institute of</p>

		Chartered Accountants of India.
3.1.8 (iii)	<p><u>Value of materials charged to the accounts under the Contract</u></p> <p>a) Except as otherwise provided in subparagraph (b) below, materials purchased by the Contractor for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, if any, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, other items chargeable against imported material and, where applicable, handling and transportation costs from point of importation to warehouse or operating site, and these costs shall not exceed those currently prevailing in normal arms length transactions on the open market.</p> <p>b) Material purchased from or sold to Affiliates or transferred to or from activities of the Contractor other than Petroleum Operations under the Contract:</p> <p>aa) new material (hereinafter referred to as condition A) shall be valued at the current international price which shall not exceed the price prevailing in normal arms length transactions on the open market;</p> <p>bb) used material which is in sound and serviceable condition and is suitable for reuse without reconditioning (hereinafter referred to as condition B) shall be priced at not more than seventy five per cent (75%) of the current price of the above mentioned new materials;</p> <p>cc) used material which cannot be classified as condition B, but</p>	

	<p>which, after reconditioning, will be further serviceable for original function as good second-hand condition B material or is serviceable for original function, but substantially not suitable for reconditioning (hereinafter referred to as condition C) shall be priced at not more than fifty per cent (50%) of the current price of the new material referred to above as condition A.</p> <p>The cost of reconditioning shall be charged to the reconditioned material, provided that the condition C material value plus the cost of reconditioning does not exceed the value of condition B material.</p> <p>Material which cannot be classified as condition B or condition C shall be priced at a value commensurate with its use.</p> <p>Material involving erection expenditure shall be charged at the applicable condition percentage (referred to above) of the current knocked-down price of new material referred to above as condition A.</p> <p>When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price in relation to materials referred to above as conditions B and C, such material shall be priced on a basis that will result in a net charge to the accounts under the Contract consistent with the value of the service rendered.</p>	
3.1.12	<p><u>Training Costs</u></p> <p>All costs and expenses incurred by the Contractor in training as is required under Article 22 of the Contract.</p>	
3.1.13	<p><u>General and Administrative Costs</u></p>	

	The costs described in Section 2.6.1 and the charge described in Section 2.6.2 of this Accounting Procedure.	
3.2 xiii 3.2 xiv		xiii) financing cost of inventory, loss on disposal of inventory ; and (xiv) Costs which are not adequately supported and documented.
4.1	<u>Records:</u>	<u>Records</u> The Operator on behalf of the Contractor shall keep and maintain the following:
4.1.1	a) The contractor shall keep and maintain detailed records of property and assets in use for or in connection with Petroleum Operations under the Contract in accordance with normal practices in exploration and production activities of the international petroleum industry.	a) The detailed records of property and assets in use for or in connection with Petroleum Operations under the Contract in accordance with normal practices in exploration and production activities of the international petroleum industry. b) The detailed records of inventories. Such records shall include information on quantities, location and condition of such property and assets, and whether such property or assets are leased or owned.
4.1.2	–	The detailed records of results of Petroleum Operations so as to enable to ascertain Cost Petroleum, Profit Petroleum and Royalty. The records as per 4.1.1 and 4.1.2 shall be duly audited by the auditors appointed under Article 25.4.
6.1.1	The quantities, prices and receipts realized therefore by the contractor as a result of sales of Crude Oil and Condensate to third parties made during the Month in question.	The quantities, and prices of sales of Crude Oil and Condensate to third parties made during the Month in question.
6.1.2	The quantities, prices and receipts realized therefore by the contractor as a result of sales of Crude Oil and Condensate made during the Month in question, other than to third parties, if any.	The quantities, and prices of sales of Crude Oil and Condensate made during the Month in question, other than to third parties, if any.
7.1	The Contractor shall prepare with respect to each Quarter a Statement of Costs, Expenditures and receipts under the Contract using mercantile basis of accounting. The Statement shall	The Contractor shall prepare with respect to each Quarter a Statement of Costs, Expenditures and Income under the Contract using mercantile basis of accounting. The

	distinguish between Exploration Costs, Development Costs and Production Costs and shall separately identify all significant items of costs and expenditure as itemised in Section 3 of this Accounting Procedure within these categories. The Statement of receipts shall distinguish between income from the sale of Petroleum and incidental income of the sort itemised in Section 3.4 of this Accounting Procedure. If the Government is not satisfied with the degree of disaggregation within the categories, it shall be entitled to request a more detailed breakdown. The Statement shall show the following:	Statement shall distinguish between Exploration Costs, Development Costs and Production Costs and shall separately identify all significant items of costs and expenditure as itemised in Section 3 of this Accounting Procedure within these categories. The Statement of receipts shall distinguish between income from the sale of Petroleum and incidental income of the sort itemised in Section 3.4 of this Accounting Procedure. If the Government is not satisfied with the degree of disaggregation within the categories, it shall be entitled to request a more detailed breakdown. The Statement shall show the following:
7.1.1	Actual costs, expenditures and receipts for the Quarter in question	Actual costs, expenditures and income for the Quarter in question
7.1.2	Cumulative costs, expenditures and receipts for the Year in question	Cumulative costs, expenditures and income for the Year in question
7.1.3	Latest forecast of cumulative costs, expenditures and receipts at the Year end.	Latest forecast of cumulative costs, expenditures and income at the Year end.
7.2	The Statement of Costs, Expenditures and receipts of each Quarter shall be submitted to Government not later than thirty (30) days after the end of such Quarter.	The Statement of Costs, Expenditures and Income of each Quarter shall be submitted to Government not later than thirty (30) days after the end of such Quarter.
7.3	–	An Annual Statement of Costs, Expenditures and Income shall be submitted as part of End of Year Statement under Section 11 of this Accounting Procedure within ninety (90) days after the end of each Year
8.1.1	unrecovered Contract Costs carried forward from the previous Quarter, if any.	Recoverable Contract Costs carried forward unrecovered from the previous Quarter, if any.
8.1.2	Contract Costs for the Quarter in question.	Recoverable Contract Costs for the Quarter in question.
8.1.3	Contract Costs for the Quarter in question (Section 8.1.1 plus Section 8.1.2).	Cumulative recoverable Contract Costs for the Quarter in question (Section 8.1.1 plus Section 8.1.2).
8.1.6	Total Cumulative amount of Contract Costs recovered up to the end of the Quarter in question.	Cumulative amount of Contract Costs recovered up to the end of the Quarter in question.

8.1.7	Amount of Contract Costs to be carried forward into the next Quarter.	Amount of balance recoverable Contract Costs to be carried forward into the next Quarter.
8.3	–	An Annual Cost Recovery Statement shall be submitted as part of End of Year Statement under Section 11 of this Accounting Procedure within ninety (90) days after the end of each Year.
9.1.1	The calculation of the applicable net cash flows as defined in Appendix D for the Quarter in question.	–
9.1.2	The value of the Investment Multiple applicable in the Quarter in question.	–
9.1.3	Based on Section 9.1.2 and Article 16, the appropriate percentages of Profit Petroleum for the Government and the Contractor in the Quarter in question.	–
9.1.5	Based on section 9.1.3 and 9.1.4, the amount of Profit Petroleum due to the Government and the Contractor as well as to each constituent of the Contractor in the Quarter in question.	The amount of Profit Petroleum due to the Government and the Contractor as well as to each constituent of the Contractor in the Quarter in question.
9.1.6	The actual amounts of Petroleum taken or payment received by Government and the Contractor as well as by each constituent of the Contractor during the Quarter in question to satisfy their entitlements pursuant to Section 9.1.5.	–
9.1.7	Adjustments to be made, if any, in future Quarters in the respective amounts of Profit Petroleum due to the Government and the Contractor as well as to each constituent of the Contractor on account of any differences between the amounts specified in Sections 9.1.5 and 9.1.6, as well as any cumulative adjustments outstanding from previous Quarters.	–
9.2	The Profit Sharing Statement shall be submitted to Government not later than thirty (30) days after the end of such Quarter. Any amount due or adjustment required in profit sharing among the Parties shall be made within thirty (30) days from the submission of the Statement to the Government.	The Profit Sharing Statement shall be submitted to Government not later than thirty (30) days after the end of such Quarter.
9.3	–	The Contractor shall prepare an annual Profit Sharing

		Statement containing the following information:
9.3.1	–	The calculation of the applicable net income as defined in Appendix D for year.
9.3.2		The Investment Multiple ratio at the end of the year .
9.3.3		The total amount of Profit Petroleum to be shared between the Government and the Contractor for the year.
9.3.4		The amount of Profit Petroleum due to the Government and the Contractor as well as to each constituent of the Contractor for the year.
9.3.5		The Annual Statement shall be submitted as part of End of Year statement under Section 11 of this Accounting Procedure within ninety (90) days after the end of each Year
11.1.1	The Contractor shall prepare a definitive End of Year Statement. The Statement shall contain aggregated information in the same format as required in the Production Statement, Value of Production and Pricing Statement, Statement of Costs, Expenditures and receipts , Cost Recovery Statement and Profit Sharing Statement, but shall be based on actual quantities of Petroleum produced, income received and costs and expenditures incurred. Based upon this Statement, any adjustments that are necessary shall be made to the transactions concerned under the Contract.	The Contractor shall prepare a definitive End of Year Statement. The Statement shall contain aggregated information in the same format as required in the Production Statement, Value of Production and Pricing Statement, Statement of Costs, Expenditures and Income , Cost Recovery Statement and Profit Sharing Statement, but shall be based on actual quantities of Petroleum produced, income accrued and costs and expenditures incurred. Based upon this Statement, any adjustments that are necessary shall be made to the transactions concerned under the Contract.
11.1.2	[Explanation End of year Statement shall further contain the item wise justification for the variation between the actual costs, and expenditure incurred and included in the statement of costs, expenditure and receipts vis-à-vis the Budgets for corresponding line items.]	[End of year Statement shall further contain the item wise justification for the variation between the actual costs, expenditure and income incurred and included in the statement of costs, expenditure and income vis-à-vis the Budgets for corresponding line items.]
11.1.3	–	The Contractor shall prepare and submit memorandum joint venture accounts which may be adapted from

		Schedule VI of the Companies Act, 1956 to indicate the recoverable costs, value of petroleum produced and saved, cost petroleum, profit petroleum, etc.
11.2	The End of Year Statement for each Year shall be submitted to Government within ninety (90) days of the end of such Year.	The End of Year Statement for each Year shall be duly audited under Article 25.4 and submitted to Government within ninety (90) days of the end of such Year.
12.1.1	Forecast costs, expenditures and receipts for the Year in question.	Forecast costs, expenditures and income for the Year in question.
12.1.2	A schedule showing the most important individual items of total costs, expenditures and receipts for the said Year.	A schedule showing the most important individual items of total costs, expenditures and income for the said Year.
Appendix D-1	In accordance with the provisions of Article 16, the share of the Government and the Contractor respectively of Profit Petroleum from the Contract Area in any Year shall be determined by the Investment Multiple earned by the Contractor from the Petroleum Operations at the end of the preceding Year. These measures of profitability shall be calculated on the basis of the appropriate net cash flow as specified in this Appendix D.	In accordance with the provisions of Article 16, the share of the Government and the Contractor respectively of Profit Petroleum from the Contract Area in any Year shall be determined by the Investment Multiple of the Contractor from the Petroleum Operations at the end of the preceding Year. These measures of profitability shall be calculated on the basis of the 'net income' as computed in this Appendix D.
2	<p>The "Net cash Income" of the Contractor from their Petroleum Operations in any particular Year is the aggregate value for the Year of the following:</p> <p>(i)Cost Petroleum entitlement of the Contractor as provided in Article 15; plus</p> <p>(ii)Profit Petroleum entitlement of the Contractor as provided in Article 16; plus</p> <p>(iii)the Contractor's all incidental income (of the type specified in section 3.4 of the accounting procedure) arising from Petroleum</p>	<p>The "Net Income" of the Contractor from their Petroleum Operations in any particular Year is the aggregate value for the Year of the following:</p> <p>(i)Cost Petroleum entitlement of the Contractor as provided in Article 15; plus</p> <p>(ii)Profit Petroleum entitlement of the Contractor as provided in Article 16; plus</p> <p>(iii)the Contractor's share of incidental income arising from Petroleum Operations;</p>

	<p>Operations;</p> <p>less</p> <p>(iv)the Contractor's Production Costs and royalty payments (Article 17) incurred on or in the Contract Area;</p>	<p>less</p> <p>(iv)the Contractor's Production Costs and royalty (Article 17) incurred on or in the Contract Area;</p>
3.	<p>The "Investment" made by the Contractor in the Contract Area in any particular Year is the aggregate value for the Year of:</p> <p>(i) the Contractor's Exploration Costs incurred on or in the Contract Area pursuant to Article 15</p> <p>plus</p> <p>(ii) the Contractor's Development Costs incurred on or in the Contract Area.</p>	<p>The "Investment" made by the Contractor in the Contract area in any particular Year is the aggregate value for the year of:</p> <p>(i) the Contractor's Exploration Costs incurred on or in the Contract area pursuant to Article 15</p> <p>plus</p> <p>(ii)the Contractor's Development Costs incurred on or in the Contract Area pursuant to Article 15.</p>
5	<p>The Investment Multiple ratio earned by the Contractor as at the end of any Year shall be calculated by dividing the aggregate value of the addition of each of the annual Net Incomes (accumulated, without interest, up to and including that Year starting from the Year in which Production Costs were first incurred or Production first arose) by the aggregate value of the addition of each of the annual Investments (accumulated, without interest, up to and including that Year starting from the Year in which Exploration and Development Costs were first incurred).</p>	<p>The Investment Multiple ratio of the Contractor as at the end of any Year shall be calculated by dividing the aggregate value of the addition of each of the annual Net Incomes (accumulated, without interest, up to and including that Year starting from the Year in which Production Costs were first incurred or Production first arose) by the aggregate value of the addition of each of the annual Investments (accumulated, without interest, up to and including that Year starting from the Year in which Exploration and Development Costs were first incurred). The Investment Multiple ratio shall be calculated corrected to 4 decimal places.</p>
6.	<p>Profit Petroleum from the Contract Area in any Year shall be shared between the Government and the Contractor in accordance with the value of the Investment Multiple earned by the Contractor as at the end of the previous Year pursuant to Articles 16.2 to 16.5.</p>	<p>Profit Petroleum from the Contract Area in any Year shall be shared between the Government and the Contractor in accordance with the value of the Investment Multiple of the Contractor as at the end of the previous Year pursuant to Articles 16.2 to 16.5.</p>

Proposed changes in the MPSC for NELP-VII

Article No.	NELP VI Clause	Proposed clause for NELP-VII.
4.1	<p>If at the end of the first Exploration Phase, the Contractor elects, pursuant to Article 3.4, to continue Exploration Operations in the Contract Area in the second Exploration Phase, the Contractor shall have the option to relinquish a part of area in simple geometrical shape. In case, the Contractor exercises its option to relinquish a part of the Contract Area at the end of first Exploration Phase, then such area to be relinquished shall not be less than twenty five percent (25%) of the original Contract Area and the Contractor shall be entitled to retain the balance area including any Development Area and Discovery Area in not more than three (3) areas of simple geometrical shapes. Notwithstanding the provision of this Article 4.1, the Contractor shall be permitted to retain the Development Areas and Discovery Areas in accordance with Article 3.4.</p>	<p>If at the end of the first Exploration Phase, the Contractor elects, pursuant to Article 3.4, to continue Exploration Operations in the Contract Area in the second Exploration Phase, the Contractor shall retain up to sixty (60%) of the original Contract Area, including any Development and Discovery Area not more than three (3) areas of simple geometrical shapes and relinquish the balance of the Contract Area prior to the commencement of the second Exploration Phase. Notwithstanding the provision of this Article 4.1, in the event the development Areas and Discovery Areas exceed forty percent (40%) of the original Contract Area, the Contractor shall be entitled to retain the extent of Development Areas and Discovery Areas.</p>

15.10	For the purpose of this Article, as well as Article 16, costs, receipts and income shall be converted into production unit equivalents, and vice versa viz both in physical and monetary terms, using the relevant prices established pursuant to Article 19 for Crude Oil and Article 21 for Natural Gas.	For the purpose of this Article, as well as Article 16, costs, <u>expenditure, sales</u> and income shall be converted into production unit equivalents, and vice versa viz both in physical and monetary terms, using the relevant prices established pursuant to Article 19 for Crude Oil and Article 21 for Natural Gas. <u>The costs, expenditure, sales and income for the purpose of this Article, as well as Article 16, will be on accrual basis as per generally accepted accounting standards.</u>
34	The Parties comprising the Contractor shall notify the Government of any change in the management or control of a Company(ies) or the relationship with any guarantor of the Company(ies).	The Parties comprising the Contractor shall notify the Government of any change in the management or control of a Company (ies) or the relationship with any guarantor of the Company(ies) and comply with Article 28.2.
3.1.15 (new section added)	New addition under Section 3.1 of accounting procedures- costs recoverable and allowable without further approval of the Government.	Security charges or costs paid by the Contractor to a Government agency for providing security protection shall be cost recoverable. Such security money shall be paid by Contractor on demand by any authorized agency, who will incur the required expenditure and cost on security protection to be provided by the Government security agencies. Government guidelines in this regard shall be binding on the Contractor.