STUDY ON GOVERNMENT OF INDIA OIL AND GAS POLICY CHANGES, FIRMS' PARTICIPATION IN AUCTIONS AND INVESTMENT DECISIONS

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Declaration

This is to certify that this research study has been conducted for thesis submission to the Executive Fellow Programme in Management, Indian Institute of Management, Indore only. I have not submitted this thesis in full or partially for any other degree or diploma. This is entirely my own work. The literature review and data were taken from research papers, articles, theses, MoPNG and DGH, and sources are cited wherever necessary and mentioned in the references also.

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Contents

Abbreviations

BP:	British Petroleum
BCM:	Billion Cubic Meters
BPRL:	Bharat Petro Resources Limited
CAPEX:	Capital Expenditure
DDW:	Deen Dayal West (Field Name)
DGM:	Deputy General Manager
DoIP&P:	Department of Industrial Policy and Promotion
DGH:	Directorate General of Hydrocarbons (MoPNG, GoI)
DWN:	Deep Water Field
E&P:	Exploration and Production
Exp:	Experienced Company
FDP:	Field Development Plan
GAIL:	Gas Authority of India Ltd
GITL:	GSPL India Transco Ltd - Gujarat State Petronet Limited
GM:	General Manager
GoI:	Government of India
GSPC:	Gujarat State Petroleum Corporation Ltd
HELP:	Hydrocarbon Exploration and Licensing Policy (OALP is a part of HELP)
HOEC:	Hindustan Oil Exploration Company Ltd
IEA:	International Energy Agency
INR:	Indian Rupee
IOCL:	Indian Oil Corporation Ltd
JV:	Joint Venture
KG:	Krishna Godavari
LNG:	Liquefied Natural Gas
LPG:	Liquefied Petroleum Gas
MD:	Managing Director
MMBtu:	Million Metric British thermal unit
MMSCM:	Million Metric Standard Cubic Meters
MMT:	Million Metric Tons
MMTOE:	Million Tons of Oil Equivalent

MoC&I: Ministry of Commerce and Industry

MPSC: Model Production Sharing Contract

MRSC: Model Revenue Sharing Contract

MoPNG: Ministry of Petroleum and Natural Gas (GoI)

NELP: New Exploration and Licensing Policy (Government of India)

NOC: National Oil Company

NPV: Net Present Value

OALP: Open Acreage Licensing Policy (Government of India)

OIL: Oil India Ltd

ONGC: Oil and Natural Gas Corporation

OPEX: Operating Expenditure

PEL: Petroleum Exploration Licenses

Pre-NELP: Policy before the introduction of NELP

PSC: Production Sharing Contract

PSU: Public Sector Unit

Pvt: Private firm

RSC: Revenue Sharing Contract

RIL: Reliance Industries Ltd

Round: It is the period; GoI conducts an auction of Oil and Gas blocks

RTI: Right to information Act

SVP: Senior Vice President

UN: United Nations

USA/US: United States of America

Vedanta: Vedanta Ltd (Cairn India is Oil and Gas division of Vedanta)

VP : Vice President

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Appendix -1 (Survey-1 Questions and Inputs)

Questions given in Survery-1

S No	Experts Opinion	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %
1	In **NELP** firm had **cost recovery** and risk is shared by GoI**, firm attracts to invest** in NELP compared to OALP					
2	In **NELP GoI** has more **control** on firm for **pricing** and distribution of Natural Gas, which benefits the society compared to OALP					
3	Oil and gas exploration **failures** (investment loss) may cause **fear** to investing firm, and sometimes the existing firms may **relinquish** the fields					
4	Due to **no-cost recovery in OALP** firm **not interested to invest** and leave Indian oil and gas sector					
5	Highly **experienced firms take risk** in OALP than less experienced firms.					
6	**GoI target** depending on the **OALP performance** only; OALP performance depending on the blocks awarded **firm's performance.**					
7	With OALP **GoI cannot achieve** the **target** of increasing the domestic production and reducing imports					
8	There are **three players** in Oil and gas exploration, Government, Firm, and Society. Firm is the key player and firm only produces oil and gas. GoI and Society depend on **Firm** for oil and gas production.					

Following are written by six experts out of twelve experts participated in section **"Any other inputs to researchers"** (Each bullet point is from one expert).

- In my opinion, NELP is a better system for promoting the investment in business, risk mitigation and controlling the prices with balanced rules and regulations for both the industry and society in general. Same time government must not limit themselves to audits and approvals of cost spent, they must participate in day to day activities in business and oversee the capital is being spent in justified manner. There is a need to transform the processes for monitoring and controlling the budget.

- In the State run oil and exploration firms can do better with their potential but not up to the mark as compared to private Oil & Gas Explorers.
- There shall be carefully investment and government shall assure that there is protection for the investment so that the firm's can do the work more efficiently.
- Pricing of products is controlled by GOI. It should be linked to international pricing. Also, GST to be introduced for Oil & Gas sector
- The analysis of NELP Vs OALP should be made based on actual fiscal terms and contractual regime offered by the Government. In totality, Government has progressively improved fiscal terms under OALP and consequently Contractor take is not a deterrent under OALP. The biggest issue is the Hydrocarbon Prospectivity of Indian sedimentary basins.
- In my opinion NELP Should still continue for new field development where as OALP should apply for development of matured fields in which risk factor is less.

Appendix -2 (Survey-2 Questions and Inputs)

Primary data – Experts Opinions Survey Questions and Inputs (Survey 2)

Following are the replies from experts (Each bullet point is from one expert)

1. What are your views about the NELP and OALP policies of GoI?

Answers

- OALP gives more advantages to Government than NELP as it follows revenue sharing mechanism than cost recovery mechanism. Also, under OALP operator shall create just adequate facilities for production of oil and gas whereas under NELP operator may create huge facilities and infrastructure. Under OALP, Government gets revenue as per free market whereas under NELP Government guidelines are to be followed.
- Good
- Both the NELP and OALP are having some merits and demerits. OALP is formulated latter to accelerate the Exploration & Production (E & P) activities in India. OLAP is revenue sharing model, the government share accrues immediately on production, unlike in cost-recovery (NELP) where the operator first claims its costs before splitting leftover profits, if any. OALP model has full freedom of pricing which is definitely advantageous as depending upon expenditure operator can fix the price of the product. One drawback in NELP model is fluctuating oil prices can make the investors fear to invest in India if government policy is not favoring them and protecting their investments as Government had control of the distribution and pricing of produced quantities. In these firms were with limited freedom, but with the benefit of cost recovery for successful explorations. Due to tough difficult exploration fields, cost of exploration has increased tremendously, but in NELP model government fixes the pricing due to which profit margin may be much lower after recovery of the exploration cost. In NELP model, there is a risk to government if production quantity is very very less then cost recovery may not be possible to operator and government also may not get any profit sharing from the operator. As per my view Government should keep both policies applicable for E & P activities. Government can keep NELP for specific field and OALP for specific fields (tougher fields). Depending upon the type of field, government should decide requisite applicability of policy.
- OALP enable bidders to bid for blocks on offer any time of the year unlike NELP which is an annual event i.e cyclic bidding.
- NELP is helpful to attract more bid in unexplored basins as the risk is less compared to OALP, where as for proven fields OALP attracts investors.

- NELP was well appreciated when launched, but gradually fall out happened. OALP is also a good option for attracting foreign investors to start their business directly into E&P in India without any tie-up with local Oil and Gas majors in India.
- NELP: Cost recovery issue: There are the disputes with DGH on various costs. It starts with budget and work plan approval stage. Subsequently it continues at development stage as there will be deviations from the plan due to various reasons. Finally it gets escalated to never ending arbitrations. JV partners are also to be blamed as they try to show inflated costs to get more cost recovery and less payment of profit petroleum to GOI. Cess & Royalty issue: In one JV cess & royalty are constant throughout the contract period and in another it is variable and get changed from time to time leading to uncertainty. Products price issue: JV has to sell oil to GOI nominated refineries at international price. But gas price is controlled by GOI leading to uncertainty.

  OALP: Being revenue sharing there won't be any cost recovery issue. Please check cess & royalty issue. Oil to be sold to GOI nominated refineries only at international price to avoid under invoicing by JV. Gas price minimum is required to be linked to international hubs to avoid uncertainty.
- NELP – Separate licenses for different types of hydrocarbons. Investment cost can be recovered before sharing the profits, there are various stages where government approval is needed for spending causing delays in overall process.

  OLAP – The contractor has freedom to choose the site and uniform licensing for conventional and unconventional, can choose any block in designated area.

- OALP: Administration of NELP was very tough. Too many process. Govt and Pvt companies will like OALP. Top line sharing.

  India geology have not been proven. Inherent risk in Indian basin. Companies had issues in risk taking. Cost recover need to be taken then sharing of profit

  Policy 1991 major policy, 1999. NELP implementation. Initial uphoria. National to Private company. Government offers had good areas. RIL, CAIN success. Private companies came.

  OALP: India basin risk increased. learning came, data gap, pricing issues . Industry development. 2014 Oil prices went down. 2017 OALP launched. Global development, Indian learnings. CAIN took many blocks .

  PSU are Ok to both, OALP ease of implementation.

2. **Which of the two policies is likely to attract investors and why?**

   Answers

- NELP may attract investors as policies are more favorable to the firm as compared to OALP.
- NELP
- Depending upon the type of field, government should make NELP or OALP policy applicable to enhance E & P activities. In NELP policy , cost recovery is possible by the investor, if exploration has been done successfully before sharing profit to the government. For OALP policy there is no provision to recover the cost and if after exploration production is very less then cost recovery shall be difficult even though pricing shall be fixed by the investor. Also if imported oil/gas is cheaper then investor cannot keep selling price higher than imported one.
- The OALP has helped in removing red tapisam and brought in a quantum jump in the E&P sector. Data for the blocks will be made available to the bidders through the National data repository (NDR).
- NELP is likely to attract more investors in unexplored basins.
- Both has it's merits and demerits, the best is yet to come. There shall be a commitment to the investors about the min returns on their investment, through min price fixation or allowing them to work out fair price of the product based on the investment and at the same time looking to the international market price. The price shall be little less than the international price as a cap, which ensure there is check and balance and no unwanted exploitation on the price discovery.
- OALP is much superior as it addresses the issue of cost recovery. Please confirm cess, royalty & products pricing in OALP.
- OLAP will attract more investments as it gives operator to select the exploration blocks on its own, without waiting for formal bid round.
- Production sharing contract - from Indonesia . Rice cultivation . rice - remove some part expenditure and then divide the remaining equality .
  Revenue sharing .
  Usa: Royalty tax mechanism . Production tax .
  Production mechanism. NALP is more user acceptance
  Company see global rules .
  High profit revenue sharing. Risk sharing in high risk block

3. **What kinds of firms are likely to invest more in these policies?**

Answers

- Firms having experience in exploration and production are likely to invest in these policies.
- Those who wants to do business in oil & gas
- In both policies, big operators, experienced foreign investors can do the investment.
- GOI efforts to attract foreign giants like Peronas, Exxon Mobil, Chevron etc and private players into E&P business haven't been quite fruitful so far.
- Companies with adequate technical and resource capabilities can participate.
- Looking to the financial risks covered in E&P, well experience E&P companies or FI can only enter into this sector. Ideally it should be a private and government partnership will bring in better results in terms of development and price control mechanism.
- Any firms can invest. However lead operator requires experience in E&P operations.
- NELP: National Oil Companies (NOCs), OLAP: International operators (IOCs).
- NELP : small firms would like to be in NELP hardy Hindustan exploration company
  OALP: Money more. Cost recovery; deep pockets
  Pricing mechanism by govt, RIL issue D6 field
  Govt service tax was introduced. Extra burden on upstream company. Contract; fiscal stability is important . GST
  BP RIL : experience of RIL
  Exonmobile

4. **What are your suggestions for attracting the investors in oil and gas?**

Answers

- In order to attract investors in oil and gas, we need to create culture for; Ease of approvals (single window), Ease of operations and Ease of government controls.
- NELP should continue for new fields and OALP should be implemented for development fields.
- For tougher identified fields, government should reduce duties, give higher prices and if possible government should make their own investment. To attract foreign investors, clear guidelines with better clarity, new policies should be formulated.
- Considering the enormous risk involved in this business by huge financial implications, apart from E&P business GOI has to provide further opportunities like exploration of minerals resources basis NDR.
- Firms are to be allowed to carry out their own study to access the potential of the proposed areas before participating in bids.

- There shall be transparent and open book approach for the investors to have a model to recover their cost through the product produced from the respective block. There shall be freedom for price discovery to make it more attractive, this will allow the investors to come forward to invest in India. GOI shall provide transparent platform irrespective of any government in power, GOI shall also support the investors to get timely clearances and customs/ports cooperation strong legal frame work to see they are given fair chances as a local investors.
- As E&P business is highly uncertain and capital oriented addressing issues mentioned above, timely decision, avoiding unnecessary interfering are required.
- Reforms in pricing of petroleum products and subsidies for LPG, Kerosene. The under recoveries accounts for huge losses for marketing firms. Clear E&P policy and relaxing or simplifying the areas like pricing and allocation of resources, PSCs, clearances etc. Incentives / tax rebates for Oil field equipment manufacturers and Technology providers. More conducive regulatory environment for international players in technology dependent operations like deep water/ultra-deep water.
- Fiscal stability criteria

  Clarity on selling of produce Oil and Gas (No clarity in Gas) haziness

  Service availability in India (SEZ to be created for service Industries, tax exemptions – GST rebate). Cost of working is lower

  Data gathering and data availability. NDR. Government charge. Should make it free. Maintenance of PC cost – running cost. Restriction. per day cost

  Working level : profit sharing cap . Bid Technical bid, commercial part .

  OALP : Profit sharing has to have cap . They will get three years to start the production. Sit on silently and return the block. No penalty.

  They go to the market : used signature bonus .

  EoI, bid part.