

CBM Policy approved by the Government on the 19th July, 1997

- a) To offer the blocks for exploitation of Coal Bed Methane (CBM) through open complete bidding system.
- b) The fiscal and broad contract terms for the blocks to be offered for CBM exploration and exploitation will be as follows:

FISCAL REGIME AND BROAD CONTRACT TERMS FOR CBM

The fiscal regime and contractual terms being proposed for the exploration and exploitation of CBM have been formulated, keeping in view the fiscal and contract terms offered by some other countries like China, Australia and Poland. While framing the fiscal terms, the attractiveness of the regime to the investors and the consideration that investors are not burdened with any upfront regressive payments to the Govt. that have a deterrent effect on the development of resources have been kept in mind. The proposed fiscal regime is as given below:

Fiscal Regime:

- i) The contractors would be required to pay license/lease fee and charges including surface rentals, land acquisition charges etc. as per the P&NG rules or as required under any other provisions.
- ii) The contractor shall pay royalty at a flat rate of 10% ad valorem as is applicable to natural gas. These amounts will accrue to the State Governments concerned.
- iii) The contractor shall be required to bid for ad valorem Production Level Payments (PLP) on a sliding scale based on incremental production wherein incremental PLP will be applicable only to the incremental production. Slabs of production rate for bidding PLP will be decided by this Ministry. This arrangement would afford the flexibility to the contractor to offer higher PLP for prospective areas and vice-versa while at the same time capturing the highest market determined value for the block on offer to the government.
- iv) The contractor will be exempted from payment of customs duty on import of goods and materials required for exploration and exploitation of CBM.
- v) The contractor will be required to pay a commercial discovery bonus of US\$ 0.3 million or its equivalent amount in Indian Rupees from Indian companies on the declaration of commercial discovery.
- vi) The contractor would be required to pay corporate income tax as per the Income Tax Act.

- vii) Since CBM is natural gas, the exploration and exploitation of CBM will enjoy Infrastructure status as already provided for exploration and production projects in the Union Budget 1997-98.
- viii) Contract shall provide for fiscal stability as provided for in exploration and production contracts.

Broad Contract Terms:

- i) The size of blocks will be determined by Ministry of Petroleum & Natural Gas keeping in view the reserve-in-place and productivity of coal seams and other relevant factors such as logistics, commercial viability etc.
- ii) The blocks will be awarded through open global competitive bidding.
- iii) The duration of the contract will be for 38 years for blocks located in a normal area and 40 years for blocks in a frontier area. The frontier area will be defined by this Ministry keeping in view the lack of infrastructure, technical complexity of the area etc.
- iv) The contract duration will be divided into four phases as follows

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| Phase-I | : | 3 yrs. and will be for exploration |
| Phase-II | : | 5-7 yrs. Pilot assessment for commerciality of production and market identification. |
| Phase-III | : | 5 yrs. Development phase. |
| Phase-IV | : | 25 yrs. Production phase. |
- v) The companies will have a walk-out option at the end of Phase-I and Phase-II.
- vi) The contractor will be asked to relinquish certain percentage of the area at the end of Phase-II and the entire area except producing area at the end of Phase-III. The percentage of relinquishment will be decided by this Ministry taking into account the technical and market conditions for the blocks on offer.
- vii) The contractor will be required to bid for work programme generally covering the following operations for each of the phases as under:

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| Phase I | : | Detailed geological, laboratory and engineering studies including selection of core hole sites. Drilling of sufficient core holes. Preliminary feasibility and techno-economic studies. |
| Phase IIA | : | Drilling of sufficient pilot wells including spot pattern wells. Techno-economic feasibility report and full scale commercial development plan. Environmental impact and related studies. |

Phase IIB : Market surveys and commitments.

Phase III : Development well drilling and establishment of field facilities.

Phase IV : Production and marketing of CBM gas. Additional development wells and other facilities, if required.

- viii) In the terms of the contract, companies would pay royalty production linked payments, tax as applicable and a bonus upon declaration of commercial discovery.
- ix) Govt. will not have any participating interest. Foreign/Indian companies could have 100% participating interest.
- x) The contractor will have the freedom to market the gas.
- xi) Assignments will be permitted with the prior approval of Govt. While approving the assignment, Govt. will consider technical and financial capability and international sensitivity of the proposed assignment.
- xii) All data gathered during the course of operation shall be the property of the Govt.
- xiii) The contractor would be required to give preference to the use of Indian goods and services subject to quality, timely availability and competitive price.
- xiv) The contractor will be required to give preference to the employment of qualified Indian nationals and shall undertake appropriate training programmes.
- xv) Preference shall be given to the companies which agree to transfer technology to domestic companies.
- xvi) Contract in general and arbitration proceedings in particular will be governed by Indian Law.
- xvii) The accounting and auditing procedure will be separately agreed to in the contract.
- xviii) Govt. may seek appropriate clarifications on the bids, wherever necessary, to properly evaluate the bids

c) The award of CBM blocks will be made by CCEA based upon the recommendations of an Empowered Committee of Secretaries comprising:

- i) Secretary, P&NG.....Chairman
- ii) Finance Secretary.....Member
- iii) Secretary (Coal).....Member
- iv) Secretary (Law).....Member

d) A model contract will be prepared by this Ministry in consultation with Ministries of Law, Finance, Coal and other relevant Ministries.. The model contract will be the basis for negotiations of contracts for individual blocks and the M/o Law will be consulted on the final contract to be signed. The contract shall be executed with the awardee with the approval of Minister in charge for Petroleum & Natural Gas.

e) As regards, proposals approved by FIPB for carrying out exploration and exploitation of CBM which are still valid under the terms and conditions of their sanction letters, a final view in this regard may be taken by the Ministry of Petroleum & Natural Gas in consultation with the M/o Coal. The question of granting license/lease for joint exploitation of hydrocarbons (oil and natural gas) and CBM from the same area on such terms as may be reasonable will be examined by the Ministry of Petroleum & Natural Gas.
