GOVERNMENT OF INDIA
MINISTRY OF PETROLEUM & NATURAL GAS
(EXPLORATION DIVISION)
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Shastri Bhawan
New Delhi – 110001

No. O-19025/10/2005-ONG-DV

DATED 1st February, 2013

OFFICE MEMORANDUM

SUBJECT: EXPLORATION IN MINING LEASE AREA AFTER EXPIRY OF EXPLORATION PERIOD.

Government of India (GoI) has decided that exploration will be allowed in Mining Lease Area with cost reovery on establishment of commerciality. All approved exploration costs will be allowed for cost recovery on such Declaration of Commerciality. The permission to explore in ML areas will be according to the following mechanism:

The contractor may do further exploration activities at his risk in the Mining Lease area, after the expiry of exploration period, subject to the following conditions:

1. Cost of such exploration activities will be recoverable after a resultant discovery is proved commercially and techno-economically viable at FDP stage, in the manner stipulated below and the development plan is approved under the provisions of the PSC. Such Exploration costs incurred till then will be recovered as provided in the PSC. Cost of any further exploration done subsequently will be recoverable only after any of those subsequent exploration efforts results in a commercially viable discovery as seen from approved FDP for that discovery.

2. (i) The Contractor must prove commercial and techno-economical viability of new discoveries as a result of such exploration, both at DOC stage and FDP stage, with requisite computations of cash flows and distribution of Profit Petroleum, demonstrating that the cumulative Government's share of Profit Petroleum from the existing discoveries will not be adversely impacted, over the period of such FDP or tenure of PSC, as appropriate, at the projected production profile validated by DGH.

   (ii) The costs considered for such computation shall include the past costs of exploration incurred in ML area after the expiry of exploration period.

(iii) The crude oil price used for such computation shall be the average 'Brent' price for last one year and the gas price shall be the price obtained from the formula approved by Government for that block, if any, or in its absence, the lowest current price obtained from the formula approved by Government for various NELP blocks.

(iv) The development and production costs considered for techno economic evaluation of FDP shall be realistic estimates. In any case, the Contractor shall agree and undertake to cap the development and production costs in respect of the new discovery, considered as Contract Costs for cost petroleum and Investment Multiple within the cost estimates used in FDP for development and production.

(v) The Contractor will have the option to propose any revision in the FDP if required for operational reasons. However, all such revised FDPs must pass the same test of commerciality and techno-economic viability as prescribed above in order to be eligible to be Contract Cost. If such revised FDPs are not approved by the Management Committee [not commercial or techno-economically viable], then the costs considered as Contract Costs under the revised FDP_shall be limited to earlier approved FDP.

3. The provisions of existing PSC will continue to apply for development and production relating to such discoveries, except for the timelines relating to discovery and development as provided in the relevant articles of PSC.

4. Approval for further exploration, development and production shall not confer any right on the contractor for further extension in the tenure of the PSC, except as provided for in the PSC.

5 The contractor will also be permitted to develop and monetise the existing discoveries, if any, in the ML area which could not be developed or monetised earlier because some of the activities may have been in deviation from PSC provisions, provided that the commerciality and techno-economic feasibility of such discoveries is established at FDP stage in the same manner as provided above. However, this will be subject to the following conditions:

(i) Costs which cannot be recovered:

- costs incurred in the past upto the date of this policy on activities which were in deviation from PSC provisions.

(ii) Costs which can be recovered:

- Costs incurred in the past on activities which were in accordance with the provisions of PSC and which are, therefore, already eligible for cost recovery.

- Any future costs for appraisal, development and production of all such existing discoveries

5. The contractor shall obtain the approval of MC for quarterly allocation of Cost Petroleum and Profit Petroleum as provided in the specific articles of PSC.

II. Operators may approach DGH for approval of any such proposals.

(Nalin Kumar Srivastava)
Deputy Secretary to the Government of India

All Operators of Exploration & Production (E&P)

Copy to : DG, DGH, NOIDA

No. O-19025/10/2005-ONG-DV (FTS-26776)
GOVERNMENT OF INDIA
MINISTRY OF PETROLEUM & NATURAL GAS
(EXPLORATION DIVISION)
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Shastri Bhawan
New Delhi-110001
Dated. 21st October, 2013

OFFICE MEMORANDUM

Subject: Exploration in Mining Lease area after expiry of Exploration period – early monetisation of discoveries

In continuation of O.M. No. O-19025/10/2005-ONG-DV dated 1.2.2013 on the policy for continued Exploration in Mining Lease (ML) area after expiry of Exploration period, the Competent Authority has approved the following mechanism to enable early monetisation of discoveries contained in ML areas:

1. The Contractor is allowed the option to submit an Integrated Development Plan (IDP) encompassing multiple new discoveries, provided technical & financial data for each new discovery covered in that IDP are furnished along with the IDP, as required under the PSC. The techno-economic viability of the IDP will be assessed for the combined group of new discoveries included in the IDP as per clause 2.1 of OM No. O-19025/10/2005-ONG-DV dated 1.2.2013.

2. For the PSCs, where accounting is required to be done Development Area- wise (DA), IDP would include technical & financial data relating to each such DA covered in that IDP

3. Submission of Declaration of Commerciality (DOC) and Field Development Plan (FDP)/ IDP together by subsuming DOC within the FDP / IDP is permitted. Cases with single discovery will be termed as FDP and in case of multiple discoveries; it will be termed as IDP.

4. The Contractor has the option to submit to the Management Committee (MC) Annual

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DG'S Office
Dy. No. 285
Date 23/10

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Work Program & Budget separately for the subsequent one or two years more along with the Annual Work Program and Budget for the year under consideration, **accompanied with milestones**, and the Management Committee (MC) will be competent to approve the same at one go. **However, MC will review the approved combined WP&B along with past performance every year.**

5. For early monetisation of new discoveries in ML areas, the Contractor, on his request, may be allowed by the MC to produce hydrocarbons from the notified new discoveries, pending approval of FDP / IDP, provided the Contractor takes approval of the MC for the Annual Work Program, Budget and Program Quantity for such new discoveries. The Annual Work Program, Budget and Program Quantity shall indicate separately the figures for Annual Work Program, Budget and Program Quantity for existing discoveries that are falling under an already approved FDP / IDP and similar figures for new discoveries that will be part of an FDP / IDP yet to be approved. The Contractor shall take approval of the MC for early monetization of new discoveries in the ML areas, which may be given by the MC with following conditions:

5.1. The Investment Multiple (IM) will be calculated as per the provisions of PSC in the following manner:

5.1.1. By including both the Petroleum produced and saved as well as the cost incurred in the existing discoveries and in the new monetized discovery(ies), and ;

5.1.2. By excluding both the Petroleum produced and saved as well as the cost incurred in the new monetized discovery (ies).

The higher IM out the above two computations calculated for a particular year, will be used for provisional sharing of Profit Petroleum for the next year, as per the provisions of PSC.

5.2. Pending approval of FDP / IDP for such new discoveries covered under this policy, recovery of all costs associated with such discoveries will not be permitted, by the Contractor notwithstanding their inclusion in the Annual Work Program & Budget. The recovery of such costs by Contractor will be allowed only after the approval of FDP / IDP to the extent of such approval, subject to audit **as per the provisions**

of the PSC. However, as far as revenues from such new discoveries are concerned, they shall form part of the PSC revenues and will be shared in the manner provided in the PSC based on the provisional IM calculated as in Para 5.1 above.

5.3. In order to avail the facility of provisional IM under this policy, the Contractor will **submit a proposal complete in all respect** for the approval of the Management Committee for the FDP / IDP in respect of such new discoveries within a period of 2 years for on-land and shallow water blocks and 3 years for deep water blocks, from the date of commencement of first production under the **FDP/ IDP concerned.**

5.4. In the event of Contractor failing to submit complete proposals for FDP / IDP within the time specified in paragraph 5.3 in respect of such new discoveries for any reason whatsoever, including for reasons of Force Majeure or excusable delays, the Contractor shall revise the computation of the provisional Investment Multiple retrospectively by excluding the expenditure incurred relating to such new discoveries, in respect of which an FDP / IDP approval is pending. The Government share of Profit Petroleum shall be recomputed retrospectively with this revised Investment Multiple and differential Profit Petroleum shall be remitted by the Contractor within three months from the end of the period specified in paragraph 5.3.

5.5. After the approval of associated FDP / IDP by the MC for such new discoveries, the Investment Multiple, total Profit Petroleum and its sharing shall be recomputed retrospectively as per the provisions of PSC, by including the cost incurred on the new discoveries (subject to audit), for the work program approved by the MC as part of the new FDP / IDP. The differential Profit Petroleum payable if any shall be remitted to Government along with the following quarterly profit petroleum due to Government. The differential Profit Petroleum refundable, if any, to the Contractor shall be adjusted from the Profit Petroleum payable to Government in subsequent quarters.

5.6. After revised computation of total Profit Petroleum and its sharing under Para 5.4 and 5.5 above, in case there are dues payable by the Contractor to the Government, interest on the same will be payable by the Contractor as per the provision for overdue payments in the PSC.

5.7. The Contractor shall obtain the approval of MC for early monetisation as per the FDP/IDP prior to commencement of production and shall notify DGH within 30 days the actual date of commencement of production.

5.8. The Contractor shall furnish to and obtain the approval of MC for the Annual WP & Budget and quarterly and annual financial statements, as prescribed in the PSC / Accounting Procedure, clearly distinguishing the petroleum production, revenues and costs in respect of the new discoveries whose FDP / IDP is pending for approval. The above computations / financial statements are subject to audit as provided in the PSC

5.9. All the necessary reservoir and production data during the course of early production would be collected and submitted to DGH.

5.10. In the case of early monetisation of new discoveries under this policy, prior to approval of FDP / IDP by MC, it shall be the responsibility of the Contractor to ensure optimal exploitation of the reservoir in accordance with Good International Petroleum Industry Practices (GIPIP) as provided in the PSC. The Directorate General of Hydrocarbons (DGH) shall, however, have the power to regulate or stop the production if, in the opinion of DGH, such regulation or stoppage of production is necessary to ensure optimal exploitation of reservoirs.

5.11. In case of any excess ANG, the relevant provisions of PSC which are applicable at the FDP stage will become applicable at such pre FDP / IDP stage also.

5.12. Such production of oil & gas prior to approval of FDP / IDP must comply with all statutory environmental & safety regulations and standards.

5.13. As already provided in Para (3) of the policy on Exploration in ML areas after expiry of exploration period communicated vide OM No. O-19025/10/2005-ONG-DV dated 01.02.2013 from MoPNG, the provisions of existing PSC will continue to apply, to all issues of development and production except for the timelines relating to discovery and development stipulated under this policy.

6. In pre NELP PSCs where ONGC / OIL are Government nominee, if the Contractor undertakes early monetization of new discoveries prior to the approval of FDP / IDP under paragraph 4 above:

6.1. ONGC /OIL shall be assured of carried Participating Interest (PI) as provided in the respective PSC, in all such new discoveries

6.2. The Operator shall adhere to the requirements of PSC / JOA while undertaking the development activity. Proposals related to early monetization shall be routed through OC (of which ONGC / OIL shall be a member with **voting right in proportion to its PI)** to DGH for approval.

6.3. Till ONGC / OIL exercises its option to farm-in in the new discovery (ies), the liability for payment of Royalty, Cess and other statutory levies rests with the Companies (Contractor excluding ONGC/OIL). **However, the revenue generated from early monetization of new discoveries in ML area will be shared by ONGC/OIL as per their PI ratio.**

6.4. The notional date for Farm-in shall be deemed as the date of approval of FDP/IDP by MC/Government **(DOC process is subsumed in FDP/IDP process for faster monetization)**

6.5. ONGC/OIL shall contribute their Participating Interest share of development and Opex incurred with respect to the new discovery (ies) from the notional date of Farm-in.

7. The Contractor/ Operator must approach DGH for approval of any such proposal.

(Rakesh Mishra)
Under Secretary to Govt. of India
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To:

1. All Operators in E & P Sector
2. DG, DGH, Noida