

O-19025/4/2001 ONG(V)
Ministry of Petroleum & Natural Gas
Government of India
Shastri Bhawan, New Delhi - 110 115

30th June, 2008

Sub. : Guidelines & Checklist for Government Nominees on Management Committees (MC)

Government has entered into Production Sharing Contracts (PSCs) for blocks/fields awarded under various policies prior to launch of NELP as well as NELP and CBM bidding rounds. Government has nominated its representatives on the Management Committees (MC) of these blocks in terms of the provisions of the contracts.

A need has been felt for identifying issues under the various Articles of the PSCs and CBM contracts which come up before the MCs for a decision. In this regard, an elaborate exercise was also undertaken in the Ministry in consultation with DGH and Operators. The purpose of formulating the guidelines is to bring transparency and uniformity in the decision making process on the issues which are coming up with these Blocks entering into successive stages of the Project Life Cycle.

Accordingly, comprehensive guidelines linked as annexure to this OM for guidance of Government Nominees on the Management Committees have been framed to assist them in transparent and consistent decision making on wide ranging topics under the PSCs. It is directed that the enclosed guidelines / checklist may be borne in mind when considering matters in the MCs. Any departure from the same may be made only on the basis of technical grounds supported by DGH and to be recorded in writing in the minutes.

Government Nominees may apprise Secretary (P&NG) once a quarter, about compliance of the above mentioned guidelines in respect of various PSCs.

o/c

Sharma

(Sunita Sharma)

Under Secretary to the Government of India
Tel. No. 23389464

To :-

1. AS & FA, P&NG
2. DG, DGH, Noida - With the request that the above guidelines may be circulated to the alternate members in the MCs.
3. JS(E), P&NG
4. Director (E-II & Vig.)
5. Director (E-I)
6. Joint Adviser (Finance)

Encl: AS ABOVE

Guidelines & Checklist for Government Nominees on Management Committees (MC)

The Government has entered into Production Sharing Contracts (PSCs) for 162 Blocks under six NELP rounds and another 57 blocks are on offer under NELP-VII. Representatives from the Government and Contractor are on the Management Committees which are highest management decision making bodies for effective and efficient administration of exploration and production operations in these Blocks. The Government has been issuing policies and Guidelines on routine issues arising out of PSC administration including extensions, Substitution, calculation of LD against unfinished MWP and principles to be adopted when considering valuation proposal for gas under the PSC. A need has been felt that comprehensive guidelines may be issued for the benefit of Government nominees in addressing various issues that are brought for decision making before the MCs. The purpose of issuing these Guidelines and Checklist is to bring transparency and uniformity in the decision making process on the issues which are coming up with NELP Blocks entering into successive stages of the Project Life Cycle.

1. Relinquishment of Block Area

Discovery Area

- (i) The Contractor should have covered the Discovery area fully by 2 D / 3 D seismic survey or any other prudent technical studies based on well recognized industry norms. The interpretations should be based on 2 D / 3 D seismic or technical studies to establish continuity of Discovery in the area claimed as Discovery Area. Any claim regarding continuity of the Discovery without complete seismic coverage or any other industry recognized technical studies may not be considered by MC, unless the Contractor establishes the same through other surveys.
- (ii) To further provide credence to the Contractor's claim of Discovery Area, the Contractor should submit an Appraisal Plan for its discovery to DGH for consideration within the specified timelines in the PSC. DGH should ensure that appraisal plan for area retained as Discovery Area is feasible to be undertaken within the appraisal period specified in the PSC. The Appraisal Programme must include activities covering the entire area claimed as Discovery Area.

2. Work Programme & Budget

(a.) Line-by-Line Description of Budget to be approved for current financial year

MC may consider and approve budgets with line by line description of activities in the work programme. The revised budgets need to be approved after seeking detailed technical justification for the activities not approved by MC in the beginning of the financial year.

(b.) Medium Term Work Programme and Budget Proposal

The Management Committee (MC) while considering any work programme and budget for the Blocks with discovery must receive Revised Estimates (RE) for the current year along with the Budgetary Estimates (BE) for the subsequent year (s). If

major changes in the year to year budget are required, these shall be based on concrete evidence necessitating such changes. Any instructions regarding budget preparation by the Government must be adhered to.

(c.) Well Abandonment due to Technical Reasons

MC may appoint a sub-committee for third party audit, if considered necessary and assign technical report submitted by the Contractor for assessing achievement of the basement due to high technical and financial significance.

3. Appraisal Programme

(a.) Appraisal Programme Proposal

(i) MC may ensure that a comprehensive, budgeted appraisal programme is proposed by the Contractor distinct from the exploration work programme. If any overlap exists between the exploration and appraisal work programme and budgets, it must be well defined and technical reasons behind this must be brought to the notice of MC.

(ii) The Appraisal Programme must include appraisal wells to appraise the Discovery Area; The appraisal period should be justified keeping in mind the appraisal programme and the maximum period permissible should not be given routinely.

(iii) DGH may get the appraisal plan vetted by a reputed consultancy agency wherever required, a list of which may be empanelled by DGH on a transparent basis.

(b.) Commerciality Declaration Report (CDR)

(i) The recommendation of the contractor to declare commerciality (DOC) should be put up for consideration of MC with all relevant technical and economic data as well as all evaluations, interpretations and analyses along with price basis of crude oil and natural gas (associated as well as non associated) at which the discovery is considered to be commercial.

(ii) Assumptions for the economics run by the Contractor may be brought up for MC appraisal. The same must be examined by the DGH before MC review so that a full appreciation of the results may be made by MC.

(iii) The broad parameters of commerciality including CAPEX, OPEX, economic viability, marketing, pricing and evacuation of hydrocarbons should have been addressed. DGH may propose the assumptions regarding policy for price of oil & natural gas (including indexation to Brent) to be assumed in the long run for working out the economics. Similarly, the CAPEX, OPEX, Discount Rate may also be taken on a consistent basis keeping in mind similarities of the Blocks.

(iv) DGH to issue formats on the lines of which DOC report should be submitted covering the issues mentioned herein.

(v) For marginal discoveries proposed to be developed on cluster basis, the minimum IRR thresholds may be prescribed on an overall basis and the basis on which the marginality would be reckoned.

4. Development Plan

(a.) Submission of Marketing / Evacuation Plan as a component of Development Plan

(i) The contractor shall submit as components of the development plan:

- an evacuation proposal for crude oil.

- whether estimated production of ANG is anticipated to exceed quantities of ANG allowed for self use. Accordingly, there must be a plan for utilization and marketing tie up of the ANG.
- Full monetization of the reserve over the lifetime at proposed recovery rate.

(ii) Within definitive time frame of DOC, the contractor shall submit a proposal for marketing of NANG including development, production, processing, utilization and sale for consideration of MC.

(b.) Flaring of Associated Natural Gas (ANG)

For new discovery and subsequent production of the crude oil, the issue of flaring of Associated Natural Gas (ANG) should be discussed in MC and a status report on volumes and tentative plan for ANG use may be submitted, if required by MC.

(c.) Development Alternatives

- (i) The report / proposal submitted by the Contractor along with DOC may contain different development proposals and preliminary cost benefit analysis of these development proposal alternatives for MC consideration.
- (ii) The development alternatives should examine different technical solutions including different evacuation methodologies as well as different production profiles.
- (iii) DGH may lay down guidelines as to how the development alternatives would be developed – on the basis of recovery schemes, reserve scenarios etc. so that there is consistency.

(d.) Evaluation

- (i) For evaluation of the development plan as well as yearly development and exploration budget analysis, DGH may procure and maintain costing databases and software for Decision Support Systems (DSS) of MC. As the CAPEX depends upon number of surface and sub-surface matrices specific to field under development, these DSS tools will facilitate to establish benchmarks for project evaluation.
- (ii) For greater transparency in decision making at the level of MC, DGH should obtain external advice on CAPEX on behalf of the Government. Looking to the nature of the Project, views of an expert / consultant may be taken on the alternatives from a panel of consultants to be prepared on transparent basis by the DGH at its own cost.
- (iii) DGH may issue guidelines on the extent of surplus facilities which may be created with a view to achieve economies of scale and tap future enhancements in production levels. It may be ensured that the impact on Government NPV may not be adverse due to creation of additional capacity in the long run. The savings in CAPEX as a result of economies of scale by higher capacity installation may be justified by the Contractor.
- (iv) Operator to submit estimates of likely profitability both to government and contractor year-wise as per the recommended development plan option.
- (v) The operator to bring out the reason for recommending the Development strategy and bring out justifications if it is not the most economically beneficial strategy for the Govt. /contractor.

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(vi) The economic profile of the FDPs may be examined by DGH and submitted through MOPNG representative for internal approvals through Internal Finance Division (IFD) in the case of major FDPs.

(e.) Cluster Development

(i) The discoveries requiring cluster development may accordingly be identified and so declared by giving appropriate justification in form of a note at time of giving DOC.

(ii) A cut-off IRR may be approved by MC for evaluation of such discoveries which may be declared as unviable on stand-alone basis.

(iii) Any extension in timelines for such discovery would be considered by Government on a proposal of MC to be examined by DGH.

(iv) DGH may also propose development of common facilities for adjacent blocks to be co-funded to make such development viable in the case of marginal fields.

(v) Discoveries which may not be viable would revert to the Government as per provisions of PSC.

(f.) Contractor's Abandonment Obligations

DGH may monitor the site restoration issue of fields to ensure that the SRF is sufficient to take care of the likely expense. They may propose higher contribution, if necessary. This aspect may be borne in mind when approving development plan.

5. Assignment of Participating Interest (PI)

Past Financial Records

(i) MC may ensure that the proposed assignment or transfer may not be approved without proper handing over of all past financial records to the prospective assignee or transferee.

(ii) The Technical Competency of the assignee may be borne in mind and examined fully especially when an Operator submits a proposal for assignment.

6. Appointment of Auditors

(a.) Short Listing of Auditors

(i) MC may ensure that proper screening norms are in place for short listing of auditors and award of audits.

(ii) MC may ensure that appointed auditors have prior oil & gas experience for large and medium sized oil and gas projects.

(iii) Auditors without oil / gas experience only may be appointed in case of exploration blocks to broad base availability of auditors with relevant expertise in due course.

(b.) Rotation of Auditors

MC may ensure that the appointed auditor in the project gets rotated after a period of three years, as per the norms.

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7. Audited Accounts / Procurement

(a.) Actual vs. Budgeted Costs

MC may consider agenda of the audited accounts through a detailed presentation by the Contractor on line by line description of Actual vs. Budgeted costs. Reasons of significant deviations, if any, may be elaborated in MC. The Non-controllable costs like G & A (General and Administrative Costs) may be detailed for MC appraisal. DGH may analyze the rates in consistency with similar work being executed in other blocks.

(b.) Vendor Qualification Criteria

(i) MC may consider the OC approved set of vendor qualification criteria for each major category of the contract / supply.

(ii) The provision regarding encouraging local vendors / contractors may be borne in mind, especially if overseas vendor is highly expensive.

(iii) There may be standardized norms for procurement of services like duration of contracts, LSTK or item wise contracts, quality standards etc. for a type of work especially for major activities.

(iv) DGH may also examine if there are any significant variations between price proposals for contracts / procurements between different PSCs.

(c.) Award of the Contracts

DGH may maintain list of vendors / service providers which may be used by the contractors. This information may be of help to small contractors especially in niche areas.

8. MC Procedures

(a.) Circulation of MC Agenda

(i) DGH and MOPNG to resolve the Government's stand before the meeting. Alternatively, the item is to be deferred for a resolution in seven (7) days.

(ii) Comments on proceedings of MC meeting may be forwarded within three (3) days by individual members to the Chairman / DGH nodal officer for inclusion in the final minutes to be issued with approval of Chairman. They may be ratified in subsequent MC meeting.

(b.) Additional Agenda Items

MC may consider various Management, Financial, Procurement, Marketing and evacuation issues for effective and efficient monitoring of the project from time to time.

(c.) Review and Approval Functions

The blocks in which discovery has take place and development area has been delineated, MC may approve the exploratory locations rather than review as additional exploration within development area may alter approved project economics.

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Checklist

1. The Secretary, with approval of the Chairman, has convened MC meeting by notifying all the members 14 days prior to such meeting.
2. The agenda includes all the items of business as requested by members, provided such requests are received by the Secretary at least seven (7) days prior to the date fixed for the meeting.
3. The Secretary has forwarded detailed agenda note to the members at least seven (7) business days prior to the date fixed for the meeting.
4. Copies of proposals made by Contractor have been made available to all the members of MC by the Contractor. Proposals of the Contractor to MC have been routed through DGH, which is the single point of contact for the Contractor and working as Secretariat on behalf of the Government.
5. Presentation to be made in MC, if any has been forwarded by the Contractor to members of MC three (3) days before MC meeting.
6. DGH nodal officer has forwarded expert views on agenda items for appraisal of Ministry nominees three (3) days before MC meeting.
7. MOPNG representatives on MC have forwarded their observations and comments to DGH before the MC meeting.
8. First agenda item in the MC meeting has included ATN / Action points from last MC meeting and review of decisions between MC meetings.
9. Periodicity of MC meetings is being adhered to as per PSC provisions.
10. Physical progress review of the Block is being considered in the MC meetings.
11. pdf files of old MC agenda and minutes are available in DGH.
12. While approving Work Programme & Budget, proposals of the Contractor must relate to the nature of activities of the relevant phase and include full scope of work.
13. The Contractor has clearly established geological and depth objectives and the sub-surface, geological, geochemical and geophysical information sought while seeking the review or approval of the work programme by MC.
14. In the blocks with a Discovery, the appraisal wells are so placed that Discovery Area can be well defined. In the case of appraisal, potential of the entire Discovery Area has clearly been established.
15. Quarterly budget review has been included as an agenda item of MC meeting.
16. Timelines for budget submission and approvals, as provided in the PSC has been adhered.
17. There is uniformity in heads of expenditure (complete well or drilling, completion, logging etc.) across the PSCs keeping in mind the phase of physical work.
18. DGH has compared proposed budget rates with schedule of rates collected through survey of prevailing rates.

Note: DGH has already been required to maintain a schedule of rates of various activities for the purpose of determining the quantity of bank guarantee against the yearly work programme.

19. Documentary support for the estimates and OC approval for activities are available in DGH.
20. Activities which require advance prior hiring like rigs are clearly reflected in the budgets early.
21. The Contractor has determined the "Programme Quantity" with the approval of MC and submitted not later than 15th of January every year, in respect of the year immediately following. The Programme Quantity for any year shall be the maximum quantity of petroleum, based on Contractor's estimates as approved by MC, which can be produced from a field minimizing unit production costs, taking into account capacity of producing wells, gathering lines, separators, storage capacity and other production facilities available for use up to the relevant year, as well as the transportation facilities up to the delivery point.
22. While considering extension / completion of exploration phases, it may be ensured that the Contractor has notified the Government of commencement of petroleum operations, as specified in the PSC. MC may not consider any proposal of phase extension without this notification.
23. Government entitlement to G & G, Production and Engineering data as well as all interpretative and derivative data during exploration phases on final relinquishment of the block or closure / termination of the Contract is ensured. DGH has prescribed timelines and format for full submission of data. This may be certified / appraised by MC on half yearly basis.
24. The time line as specified in the PSC for giving notice of commerciality is being adhered.
25. The Contractor has furnished details of all site restoration activities and details of the sinking fund proposed to be created for accomplishing the same at the time of submission of development plan for consideration of MC.
26. As per provisions of PSC, Contractor has the right to use natural gas produced from contract area for purpose of petroleum operations including re-injection for pressure maintenance, gas lifting and power generation. The amount of gas which is proposed to be consumed for self use has been indicated for MC consideration while approving the development plan.
27. In case of producing Blocks, the Contractor must bring out salient financial highlights including provisional PTIM calculations for MC appraisal.
28. Appointed auditors don't have any conflict of interest with the companies.

Guidelines for Government Nominees on Management Committees (MC) & Checklist

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(b.) Rotation of Auditors

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The blocks in which discovery has take place and development area has been delineated, MC may approve the exploratory locations rather than review as additional exploration within development area may alter approved project economics.

Checklist

1. The Secretary, with approval of the Chairman, has convened MC meeting by notifying all the members 28 days prior to such meeting.
2. The agenda includes all the items of business as requested by members, provided such requests are received by the Secretary at least ten (10) days prior to the date fixed for the meeting.
3. The Secretary has forwarded detailed agenda note to the members at least seven (7) business days prior to the date fixed for the meeting.
4. Copies of proposals made by Contractor have been made available to all the members of MC by the Contractor. Proposals of the Contractor to MC have been routed through DGH, which is the single point of contact for the Contractor and working as Secretariat on behalf of the Government.
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18. DGH has compared proposed budget rates with schedule of rates collected through survey of prevailing rates.

Note: DGH has already been required to maintain a schedule of rates of various activities for the purpose of determining the quantity of bank guarantee against the yearly work programme.

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20. Activities which require advance prior hiring like rigs are clearly reflected in the budgets early.
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24. The time line as specified in the PSC for giving notice of commerciality is being adhered.
25. The Contractor has furnished details of all site restoration activities and details of the sinking fund proposed to be created for accomplishing the same at the time of submission of development plan for consideration of MC.
26. As per provisions of PSC, Contractor has the right to use natural gas produced from contract area for purpose of petroleum operations including re-injection for pressure maintenance, gas lifting and power generation. The amount of gas which is proposed to be consumed for self use has been indicated for MC consideration while approving the development plan.
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