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GOVERNMENT OF INDIA
MINISTRY OF PETROLEUM & NATURAL GAS
(EXPLORATION DIVISION)
*****

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

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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

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