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Government of India
Ministry of Petroleum & Natural Gas

Shastri Bhawan, New Delhi
Dated: 13th May, 2015.

To,

Director General,
Directorate General of Hydrocarbons,
OIDB Bhawan, Plot No. 2, Sector -73
Noida (U.P.)-201301

Subject: Policy for Testing Requirement .

Sir,

As you are aware, there has been dispute relating to testing requirements in respect of certain discoveries. Since, no conventional flow test was carried out by the contractors, commerciality of these discoveries have not been reviewed by the DGH for want of surface flow data. DGH has been of the view that generation of surface flow data is a contractual as well as technical requirement for evaluation of Declaration of Commerciality (DoC) and flow rate so established is used subsequently in Field Development Plan (FDP). Contracts in these cases have not moved forward beyond DoC stage due to disputes on testing requirement and consequently timeline prescribed in Production Sharing Contract (PSC) have also expired. This has led to a situation where monetization of a large number of discoveries having substantial resources has been held up.

2. With a view to resolve the dispute and in view of interest of early monetization of these discoveries, Government has considered the issue of carrying out Drill Stem Test (DST) in respect of 12 discoveries related to five blocks (list enclosed) and has decided that the contractors would be allowed to choose one of the following three options:

Option 1 : The contractors may relinquish the contract area associated with these discoveries, if they consider appropriate, after complying with the applicable PSC provision.

Option 2 : If the Contractor decides to take up Development of Discoveries after conducting conventional test as per PSC provision, such as DST, which was not conducted earlier and for which the timelines as prescribed in PSC has lapsed, the following provisions would be applicable :

- a. The contractors will be allowed to submit revised Declaration of Commerciality (DOC) within one year from the date of CCEA approval after carrying out DST. However, if revised DOC is not received from the contractor within a period of one year from the date of CCEA approval, the contractor shall relinquish the area encompassing these discoveries and also the right to develop these discoveries as per PSC provisions.
- b. The contractors will be allowed one more year from the date of review of DOC by Management Committee (MC) for submission of FDP. The time allowed to MC for review of DOC will be within 120 days of submission of DOC in place of 150 days as provided in PSC, to expedite the development activities.

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- c. Cost recovery of the DST carried out now will be allowed only to the extent of 50% of the cost of carrying DST with a cap of US\$ 15 Million per test.
 - d. The cost of other test(s) such as MDT/RCI/RDT carried out earlier by the contractors in respect of these discoveries will not be allowed for cost recovery.

Option 3: If the Contractor decides to proceed with the Development of Discovery without Conducting DST then :

If the contractor decides to avail this option, the following provisions will be applicable :

- a. In cases where timeline for submission of DOC has expired, the contractors may be allowed to proceed with the development of the discoveries which are commercial in their opinion without conducting the Drill Stem test. The DOC report already submitted by the contractor would be reviewed by the Management Committee within 120 days of the CCEA approval for existing cases.
- b. However, the cost recovery of entire development of such discoveries will be ring fenced. The ring fenced discoveries will be treated as a separate accounting unit. The revenue and costs associated with the ring fenced discoveries will be accounted separately and will be shared with the Government based on Investment Multiple (IM) calculated separately in respect of ring fenced portion. The cost recovery will be permitted only when these discoveries finally turn out to be commercial on standalone basis or integrated with development of similar discoveries whose development plan has not yet been approved by the Management Committee, in absence of DST. Thus, the contractors will take up development of these discoveries at their own risk.

If the contractor of these discoveries does not opt for any one of these options suggested above within 60 days of the CCEA approval then the area encompassing these discoveries shall automatically get relinquished.

3. The above three options will also be applicable to similarly placed discoveries, if any.
4. The date of CCEA approval for the above decision is 29.04.2015 and accordingly the timelines for submission of DOC and FDP will start.

Yours faithfully,

D K Ghosh
(D K Ghosh)

Under Secretary to the Govt. of India
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