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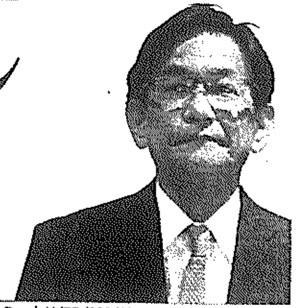

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Regd. H/SD/322/2015-17, RNI No. 55320/94

Centre throws open the gas market, too

To auction 69 marginal fields of ONGC/OIL; operators to get marketing, pricing freedom

OUR BUREAU
New Delhi, September 2

In what is being seen as a pre-cursor to further freeing the oil and gas sector, the government has decided to auction 69 marginal fields of ONGC and Oil India under a unified licence regime with marketing and pricing freedom.

Resources worth ₹70,000 crore (89 million tonnes of oil and gas reserves) are locked in these fields with estimated annual production of ₹3,500 crore. The government aims to complete the auctions in three months and the winners will be given a 20-year licence.

Move welcomed

While the industry terms Wednesday's Cabinet decision as 'better late than never', as the proposal has been in the works for over five years, experts say 'read the fine print'. The government has not only allowed exploration of all types of hydrocarbons — oil, gas, shale (oil and gas), coal bed methane — under a revenue-sharing model, but also given operators the freedom to sell the discovered gas at market price. Currently, only crude is allowed to be sold at market price.

"With this, the government has sent out a bigger message: that it is opening up the gas market as well. If you allow market price from these isolated and smaller fields, you may not have a valid reason to stop contractors of larger fields from getting higher prices," a senior official told *BusinessLine*.

Briefing media persons after the Cabinet meeting, Minister of State for Petroleum and Natural Gas Dharmendra Pradhan said the move to a revenue sharing model (production-linked) is a paradigm shift from the prevailing production sharing contract regime. Under the existing production sharing contract, the contractor first recovers his expenditure before sharing profit.

The government is working on the tenth edition of the New Exploration Licensing Policy and is keen to come out with a policy for marginal fields before the launch of NELP X. The revenue sharing model will also be extended to future hydrocarbon contracts as well, Pradhan indicated.

More transparent

The contractual model had become a bone of contention between the government and producers.

Also, production-linked payment is said to be more transparent, reducing intervention in routine exploration and development activities.

Pradhan said to keep the government's earnings safe from the fields producing gas, revenue sharing and royalty will be benchmarked to the domestic gas price.

The marginal fields were awarded to public sector oil companies on nomination basis prior to the licensing rounds. These discoveries could not be monetised for many years for various reasons such as isolated locations, small size of reserves, high development costs, and technological constraints.

"This is a step in the right direction to monetise hydrocarbon resources in the country. Also, access to all forms of hydrocarbons and market pricing of gas are positive developments. We now look forward to the bid documents for greater clarity," said a Cairn India spokesperson.

Of the 69 fields, 63 belonged to ONGC and six to Oil India. Both companies can, if they choose to participate in the auctions, a senior Ministry official said. Winners of onshore fields will have to start production in three years from the effective date of handover, shallow fields will have to start production in three years and deepwater fields in six years.

While the decision will incentivise the sector and attract global firms that have not looked at India till now, local industry players are quick to point out that a lot will depend on how it is implemented and regulated.

"The government has to put in place a regulatory mechanism, and fiscal issues, including taxation, need to be sorted out," another official said.

OIL'S WELL

Monetising resources

- 69 marginal fields held by ONGC, OIL to be auctioned
- Revenue model will be production-linked
- Contractor will have marketing and pricing freedom
- Auctions to be completed in three months
- Winners will be given a 20-year licence

Royalty calculation

	Crude oil production	Gas production
Onshore fields	12.5%	10%
Shallow water fields	10%	10%
Deepwater and ultra deepwater fields	5%	5%

"We are serious about maximum governance and minimum government. With the move to a revenue-sharing model, government interference will reduce."
DHARMENDRA PRADHAN
Minister of State for Petroleum and Natural Gas