

Govt fines RIL \$1.6bn for using ONGC gas

Co Plans Arbitration, Says Demand Based On 'Misreading Of Key Elements' Of PSC

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New Delhi: The stage has been set for another round of legal slugfest between India's biggest private sector oil company and the government, with the oil ministry asking Reliance Industries and its partners in the KG-D6 Andhra offshore Block to pay \$1.55 billion (approximately Rs 10,000 crore based on current exchange rate) as cost of gas that migrated to their side from an adjacent block belonging to state-run ONGC.

RIL responded to the demand note, sent on Thursday to it, British major BP and Canadian explorer Niko, by saying it proposed to initiate arbitration since the demand was based on "misreading and misinterpretation of key elements of the PSC (production sharing contract) and is without precedent in the oil and gas industry anywhere in the world".

"RIL proposes to invoke the dispute resolution mechanism in the PSC and issue a Notice of Arbitration to the government. RIL remains convinced of being able to fully justify and vindicate its position that the government's claim is not sustainable," the company said in a statement.

"According to the government, the Contractor is restricted to producing only that quantity of hydrocarbon as they existed at the point in time when the PSC was signed.



This approach overlooks the fundamental fact that at that stage the work of exploration of the block has not even commenced and a complete lack of data makes it impossible to estimate the quantity of hydrocarbons available in the block."

"The liability of the contractor has not been established by any process known to law and the quantification of the purported claim is without any basis and arbitrary."

RIL and the government are already engaged in several international arbitrations with more than \$5 billion at stake. The arbitrations have been initiated on issues ranging from penalty imposed for failure to meet the promised output targets and gas pricing in KG-D6 to cost calculations in the Parana-Mukta and Tapti fields, which have now been abandoned.

The ministry has demanded \$1.47 billion for 338.332 million units (measured in British thermal unit) of gas that migrated from ONGC's field in seven years ended March 2016.

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From this amount, \$71.71 million royalty that RIL paid on this gas was demanded. But an interest of \$149.86 million, charged at the rate of 2% above Libor, was added to the amount to work out the total demand.

The ministry also demanded \$177 million in profit petroleum (government's share of profit) from the partners after disallowing certain costs previously as a penalty for RIL's failure to meet output targets.

The demand note follows the direction set by the panel the ministry had constituted under retired Justice AP Shah to adjudicate the report by US-based reservoir experts, DeGolyer and MacNaughton, appointed at the behest of the Delhi High Court. The report had confirmed ONGC's claim on migration of gas from its idle field into RIL's block, which started production in 2009.

The Shah panel upheld the report and said RIL and its partners had derived "undue enrichment" from gas migrating from ONGC's block.